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WEST EUROPE REPORT

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SPD'S EPPLER ON GENEVA TALKS, UNEMPLOYMENT

Bonn VORWAERTS in German 11 Aug 83 p 21-22

[Interview with Erhard Eppler by Wolfgang Michal: "The Few Who Survive This Will Never Know Who Pushed the Button 30 Seconds Ahead of the Other: When the Scare Strategy in its Last Phase Leads Into Absurdity"]

[Text] According to SPD board member Erhard Eppler in an interview with VORWAERTS, there can be no agreement in the Geneva negotiations on medium-range weapons without a government crisis in the United States, in the course of which at least Defense Secretary Weinberger would resign. And since this is much more unlikely than the failure of the negotiations, he expects the Geneva talks to fail.

He also thinks so for another reason: the two superpowers are not comparably affected. In contrast to the United States--which is not within range of the SS-20--only the Soviet Union has been put under pressure by the NATO two-track decision. It is therefore "completely plausible that deployment of Pershings is more interesting to U.S. generals and strategists than a reduction of SS-20s, simply because the Pershing can hit the heart of a world power and the SS-20 cannot."

Eppler pleads for explication of the connection between an arms buildup and economic development. In this respect the peace movement probably does more for jobs than many an economic expert.

Question: Mr Eppler, do you consider the deployment of only cruise missiles acceptable as the lesser evil, so to speak?

Answer: It is not a matter of what I consider acceptable but what those concerned, in this case the Soviet Union, find acceptable. It is my impression that if no missiles were to be deployed, the Soviet Union is ready to make relatively far-reaching concessions, but as soon as Pershing or cruise missiles are deployed, they will take those military countermeasures which the Soviet military considers appropriate.

Question: Do you consider the so-called "walk in the woods formula" a diversionary tactic?

Answer: According to my information it has never existed as a formula for agreement. It was a suggestion by Nitze, and only under certain circumstances, which was passed on to Moscow by Kvizinski with all reservations and was rejected there just as it was in Washington.

I think to so-called "walk in the woods formula" has little chance of success because the Soviet Union is willing to make extensive concessions only if all missile deployment is dropped. For the Soviet government, the necessity of an enormously expensive defense system against land-based cruise missiles does not depend on the number of missiles. It will have to build up exactly the same system for 75 cruise missiles as it would for 464.

Question: In your opinion, what strategy is the federal government pursuing with its airing of the "walk in the woods"?

Answer: I consider it an expression of embarrassment and an alibi, an attempt at establishing an alibi. Later on it will be able to point out how far it had been willing to go, but according to my information this formula doesn't stand a chance.

Question: During the last round of negotiations what, if anything, can still be discussed until November 15?

Answer: I consider it not totally impossible that the Soviet Union, on 6 September or even earlier, will make clear once more what they are willing to remove in case of nondeployment by the Western side. And I would not consider it entirely impossible that it would go beyond the Andropov proposal. One must also take into consideration that the Andropov formula would leave the Soviets with about 40 percent of the warheads they had in 1977, at a time when the talk was of approximate balance. This would mean that the Soviet Union would have fewer than 200 warheads while in 1977, adding up the old and the new ones, it had about 750.

Question: But the French won't agree to that.

Answer: I consider the position of the French government unfortunate. It is based on a narrow nationalistic calculation on which one will be unable to build peace during the last 2 decades of our century. I myself was in Paris a few months ago and gained the impression that only at the fringes of the Socialist party is anyone seriously thinking about this question.

Question: But then, how realistic is the Andropov formula?

Answer: Such a formula does not give orders to the French and the British, and the question of what is to be included is up to the two world powers. They would only have to agree to certain figures, then no reference to the British and French systems is even necessary in an agreement.

Question: Just how important are these negotiations at this point, in your opinion?

Answer: For the last 3 and 1/2 years I have been convinced that only a miracle can produce results in these negotiations. And for the reason that the two superpowers are not comparably affected. The Soviet Union, whose most important cities lie within range of the Pershing, is directly affected. The United States, whose cities are outside the reach of the SS-20, is only affected indirectly because of the U.S. troops stationed in Europe. This is the fallacy underlying the two-track decision.

The two-track decision has in fact put the Soviet Union under pressure, but not the United States. The United States has only to wait until the negotiations break down, then it can deploy the weapons with which it can carry out a fatal blow against important political and military command centers of the Soviet Union. It is entirely plausible that the deployment of the Pershing missiles is of greater interest to U.S. generals and strategists than the reduction of SS-20s, simply because the Pershing can hit the heart of a world power and the SS-20 cannot.

Question: In this, do you share the opinion of the Greens that U.S. strategy has become an aggressive strategy?

Answer: According to my analyses, at least the Pentagon--that is, Weinberger and his people--wants to be able to threaten with a nuclear war that can be executed, survived and therefore won, and so decisively that the war does not even have to be waged so that in a conflict in the Near East or in Africa or elsewhere, the Soviet Union will be forced to give in, so that the winnable nuclear war does not actually have to be won. I believe this to be an adventuresome strategy close to lunacy. For this reason I have always held the theory that there can be no agreement in Geneva unless there is a government crisis in the United States, in the course of which at least Weinberger resigns, and since this is much more unlikely than a failure of the negotiations, I expect failure.

Question: In the SPD a new NATO strategy is under discussion which assumes that NATO armies in Europe can be re-equipped with conventional weapons, thus doing away with nuclear arms.

Answer: Re-equipping, that is with armaments with which one can defend oneself if necessary but with which one cannot threaten another on his territory, is certainly not a final solution, but for me it is a possible transitional phase on the road to disarmament.

Question: You argue about motivation and impute to the Pentagon an aggressive strategy. But it is those same people who no longer argue in favor of nuclear weapons--like Kissinger or Rogers--but of conventional weapons. Can there really be a basic difference?

Answer: Up to now, no one has said that whoever crosses my border will bite into granite and be thrown out again but rather, whoever threatens me with

death I will threaten in his own country and much more intensively, more effectively, with death, and we must break out of this cycle. Deterrence has changed time and again during the past 30 years. Today we are perhaps in the fourth phase of deterrent strategy, and this is the phase where the strategy reduces itself to absurdity, because no difference can be found between aggressor and defender.

Once the early warning times are reduced to almost zero--through the Pershings here and the Soviet short-range missiles in the GDR--and a conflict breaks out, say in Syria or Lebanon, in which the world powers get embroiled and the spark jumps to Europe, then the few who survive that will never know who pushed the button 30 seconds ahead of the other. If one wants to break up this mechanism, one will have to try to establish temporarily that relative security which men and nations can reach, through weapons which only threaten him who enters another's territory.

Question: What should the SPD do in order to influence the last decisive round of negotiations in Geneva?

Answer: Disregarding the fact that I don't put, and have not put, any great hopes in these negotiations, the only thing that might have a certain effect would be the announcement of a clear "No" to deployment, in case U.S. conduct of the negotiations remains as it was from the beginning.

Question: But a clear "No" would also mean a clear "Yes" to the peace movement and its actions?

Answer: I feel myself a part of the peace movement and understandably have no objection to a clear "Yes."

Question: If you think about the forms of action of the peace movement, is there not a rather big gap compared to the types of action by trade unions, the labor movement? For instance, many consider fasting to be nonsense.

Answer: If one takes the utopia of a peaceful world seriously, two attitudes are possible: one is to work painfully, step by step, toward it politically--that is the task of a political party, of the Social Democrats, and to a certain degree it is also the task of a giant organization such as the [federation of] trade unions. And there is the other course of action, that is, to anticipate symbolically in the here and now this utopia of a peaceful and nonviolent world. This is what the peace movement is doing. It sets up symbols. The two attitudes do not contradict each other, rather they need and complement each other.

Since I have always been of the opinion that a peace movement is only possible through many different methods which complement and respect each other, I do not hold it against the party or the trade unions that they choose forms of actions different from, for example, the Christian peace groups. But this must also hold true the other way around.

Question: After the Lafontaine demand for discussion of a general strike in order to draw attention was not taken up, the Steinkuehler demand for a 15-minute walkout was also criticized.

Answer: I did not participate in the discussion of a strike or general strike since I hold no [position of] responsibility in the trade unions and only pay my membership dues. But I am glad that the discussion got under way in the trade unions, also through Oskar Lafontaine. How this discussion will end, this of course is not decided by Franz Steinkuehler nor by Hermann Rappe; it will come from the formulation of objectives as expressed in resolutions of trade union congresses.

Question: Recently voices have been raised in the SPD saying that you [the SPD] are too involved in the peace movement and not enough in economic and social policies, and consequently we lost the election.

Answer: I should like to dispute the point that we lost the election because our Munich resolutions on creating jobs were perhaps not good enough. We lost the election because people had expected that the government led by the Social Democrats would be able to cope with unemployment--and they had reason for this expectation. This was obviously not the case, and therefore many voters were of the opinion that if one side could not manage the recovery, maybe the other side could.

Since we were never honest enough to tell the people that the recovery which would sweep away our problems cannot exist, all this has its own inner logic. It is not a matter now of convincing the people that we really would be the better ones to bring about such a recovery. First, this would not be very credible and, second, it would be very far from reality.

I do not think much of trying to formulate a new economic program ignoring all other questions. This will fail. The economy has become much too serious a matter in the meantime simply to leave it to economists. If we do not succeed in analyzing correctly the total reality of the eighties and nineties, which is completely different from that of the fifties and sixties, and to draw the correct political conclusions from it, then all attempts to fashion a new economic-political concept will necessarily fail. That is why I am of the opinion that the party must initiate discussions of a basic program of principles which will not question the fundamental decisions of Godesberg, but will give a new answer to a totally changed world.

Question: How can the wrong confrontation of jobs vs peace be avoided in this year's actual discussion?

Answer: I always try to point out to comrades and colleagues alike that armament and unemployment are intimately tied to each other. If the U.S. arms buildup continues at the present rate, it could well happen that what is called a recovery in the United States will soon cause high interest rates which in turn will hit the Federal Republic and naturally stifle everything here, too, which might lead to an economic recovery. We must make it clear that excessive

demands on national economies through a lunatic arms buildup is one of the reasons for today's mass unemployment. In this respect the peace movement perhaps does more for jobs than many an economic expert who spouts some outdated theory for the 367th time.

Question: In setting up the discussion on the connection between jobs and peace, do you see any shortcomings in the party?

Answer: These shortcomings, unfortunately, have been around a long time and have led to the situation where today we are no longer part of the government. It was suicidal to set the organized labor movement against the new social movements, ecology movement, peace movement, women's movement etc. This has destroyed the social alliance on which the strong position of the SPD rested since 1969. And it also swept the party of the Greens into parliament.

In the Federal Republic of Germany there is no majority against the Union [CDU/CSU] and the new social movements. The CDU/CSU and social movements will always have the majority in the coming decades. Whoever wants a majority to the left of the Union--and that has been the decisive subject of German politics since Friedrich Naumann, i.e., for about 80 years (he called it the majority left of center)--must lead the classic labor movement into an intensive discussion with the peace movement, the ecology movement, the women's movement; and whoever does not want that has already resigned himself to a more or less fruitless opposition role, squeezed between the Union and the Greens....

Question: Should one perhaps see the reserve of our regular voters vis-a-vis these new social movements against the background of 13 years of wooing the new middle class of the FDP, who now don't want us to run after other new minorities?...

Answer: First of all, I don't really believe that there is a very great reserve toward the peace movement among our regular supporters. Opinion polls indicate strongly that there exists a clear majority against deployment, and that there are more people in our country who are sympathizers of the peace movement than there are who consider it dangerous or even unacceptable.

I think the difficulties lie with those who are responsible for large organizations. I can understand that a trade union board is not happy when alternative lists are set up in factory committee elections, but it is not the only measuring stick for the relationship between trade unions and peace movement.

Question: Actually, the battle cry of the labor movement has always been "unity," while the new social movements hold the concept of "diversity."

Answer: Yes, unity through respecting diversity. But I would like to add one more thing. Every new movement searches for its own forms of action, and the action form of a strike was illegal at one time and had to be legalized through hard battle. The labor movement should not forget that perhaps one or another action form of the new social movements will be legalized some day.

Question: What role can the SPD assume in this discussion?

Answer: Above all, the SPD can bring the two together in discussion, and it can ask for understanding on each side, respectively, for the special tasks which the peace movement has on the one side and the trade unions have on the other side. Within the peace movement there is a lack of information about trade unions, and among the trade unions there is an equal lack of information about the peace movement—and it doesn't have to stay that way.

9917

CSO: 3610/440

GROUP OF OIL FIRMS FORM CORPORATION TO DEAL WITH USSR

Oslo APTENPOSTEN in Norwegian 24 Aug 83 p 29

[Article by Pål Stensaas: "Norwegian Offshore Industry: Joint Gamble on Soviet Union"]

[Text] A group of Norwegian concerns has established a private company which will market services and equipment to the Soviet oil industry. They have been inspired by the improved possibilities for the Norwegian offshore industry in the Soviet market.

The new company, which was established on 19 August, is called BOCONOR A/S. Sponsoring BOCONOR are Det norske Veritas [Norwegian Veritas], GECO, the Kongsberg Weapons Plant, Moss Rosenberg Shipyard, Norwegian Contractors, NPC--Norwegian Petroleum Consultants--and the Stord Shipyard. The share capital is divided equally.

The Soviet Union is interested in bids covering all goods and services necessary for development of possible oil and gas fields in the Barents Sea. It is important that such bids from Norwegian offshore interests be coordinated through an energetic joint company with competence and expertise. The owner interests in BOCONOR A/S represent a broad spectrum of Norwegian offshore operations and cover everything from seismology to the complete development and operation of oil and gas fields.

The newly established company is to be represented at the NEFTEGAZ '83 Soviet petroleum fair in Baku in September.

8985

CSO: 3639/164

ECONOMISTS OFFER REMEDIES FOR INFLATION, BUDGET DEFICIT

Modigliani Interview

Rome L'ESPRESSO in Italian 19 Jun 83 pp 180-191

[Interview with international economist Franco Modigliani, conducted by Giuseppe Turani at Milan's Principe de Savoia Hotel, date not given. Original title: "Super-America's Super-Dollar"]

[Excerpts] The world-wide recession, says the illustrious economist, ended with the end of the oil crisis. But watch Reagan. As for Italy, it will take some tinkering with the cost of living index to push inflation down, because...

"You're asking me if we are really out of the recession? My answer is yes, but with one important stipulation: the crisis is over because the oil crisis is over. Over these past 10 years we have learned that the price of crude oil is the critical point in our economic system. But we have not yet learned how to control it, how to manage it. That means that if another oil crisis were to break out, I believe we should find ourselves in deep trouble once again."

Franco Modigliani is one of the world's leading economists; he teaches at MIT in Boston, and has served as consultant to the Bank of Italy. In his room at the Principe di Savoia in Milan, his table is covered with documents, statistics, studies. Now that the worst seems to be behind us, at least for the other countries, he is ready to talk about what this particular crisis was and about what still remains to be done, particularly here in Italy. His ideas, as always, are crisp and cogent.

[Question] What about Italy, then? We now have 2 million people out of work, as the monetarists planned, but we still haven't licked inflation. Why should this be?

[Answer] We might start with the doubts, shared by many Italians, as to the credibility of this enormous army of jobless, which some

estimates put as low as a third of the official figures. I am, even so, ready to believe that unemployment is on the rise, especially among the young. But the trouble is that the Italian case is anomalous, and I don't know whether my saying so is going to please my friends in the labor movement or not. In Italy, in sharp contrast with what is happening in other market economies, unemployment has not led to a slowdown in wage inflation or to an adjustment in real wages. This is happening for two reasons: first, the cost of living index with its fixed trigger-points, and second, the strength of the labor unions and the nature of their concerns. This structure enables them to force enterprise to pay higher real wages with little or no concern for the consequences that will perforce mean to the availability of jobs. All these factors, coupled with the scant attention organized labor has paid thus far to productivity problems, have brought about a rise in real wages in a way inconsistent with the productivity of the system. Particularly when we remember that among the participants in this wage race was the huge public sector, where productivity is extremely low, if not actually non-existent. In other words, there has been no adjustment of real wages.

[Question] But the cost of living index was adjusted only recently. It is no longer so high as it used to be.

[Answer] Yes, of course. Before, it compensated for about 75 percent of inflation. Today they tell me its coverage rate has dropped to 60 percent. Nevertheless, I continue to believe that the cost of living index is a lot more effective than the figures tell us it is, precisely because of the single contingency point. Since the COLA mechanism flattens out wages, employers must come up with other increases as motivation for those who are working and hence, in the end, their costs are higher and Italian wages, on the average, are enjoying a lot better than 60-percent compensation for inflation.

[Question] Why is it that we can never seem to manage to shake off this sickness?

[Answer] By now, the way the Italian economy works is very clear. Labor contracts impose wages far too high in relation to productivity, and as a consequence businesses raise prices to cover their increased labor costs. Price rises, through the cost of living index, lead to wage increases, which result in further price increases, and so on up the classic inflationary spiral. In an open economy, though, if, and so long as, the exchange remains fixed, this spiral tends to peter out. This happens because, in the process, real wages tend to rise, since import prices stay more or less steady, and thereby exert a calming effect on goods produced domestically. But, as we move toward this potential equilibrium, the balance of current payments steadily deteriorates because of rising imports and dwindling exports, with a consequent rise in unemployment and decline in profits. Sooner

or later the deficit in the current balance and the shattering of profits will become intolerable and the Central Bank will find itself up against two cruel alternatives: either put on such a squeeze as to cut jobs to a sufficiently low level to cut off imports (which would not, however, help profits); or to devalue the currency and thus set off a new spiral of inflation. As I see it, right now we are on a path that reflects a compromise between these two solutions -- agreeing to a high level of unemployment and thus reduce pressure on the balance of payments, but, since that is not enough, there will be repeated devaluations which in turn will keep the fires of inflation burning. Naturally, the extreme weakness of world market demand right now helps to complicate the problem.

[Question] What can be done about it?

[Answer] We must get it through our heads that wages must follow their headlong climb.

[Question] But why hasn't this already happened, with 2 million people unemployed?

[Answer] Because organized labor in Italy is still made up of unions for the employed. The number of people without jobs is growing, but the Italian unions go right on demanding wage increases for those who have hung onto their jobs. This doesn't happen in America, where organized labor is not nearly so strong as it is here, nor yet in other countries.

[Question] Now, though, there is a new factor: we used to have inflation just like everybody else, and now we're almost the only ones to have it.

[Answer] Quite right. Outside Italy, inflation is running at zero to 5 percent, according to country, with a few exceptions such as France. Given these conditions, Italy's position becomes very dangerous. For one thing, within a very short time, it may become meaningless to stay in the EMS, but to withdraw from it would mean losing Italy's grip on Europe. Furthermore, a 15-to-16-percent inflation rate while the others have less than 5 percent is a very unstable position.

[Question] What might happen?

[Answer] As I see it, either it goes down or it goes up. Either it comes down below 5 percent, like the others, or it can get clean out of hand again and climb to 20 or even 30 percent. This is a very delicate and dangerous passage for Italy.

[Question] How do we bring it down?

[Answer] You have to reset the cost-of-living index machinery.

On several occasions I have advanced a proposal for doing it.

[Question] What is it?

[Answer] You have to decide on the number of trigger-points you will allow per quarter, from now through the end of 1985, as if inflation were to drop to 5 percent. In other words, you set the index so that from now on, it will cover only a descending inflation rate that will reach the goal of 5 percent in 1985, and that is all you pay.

[Question] What if it should turn out to be higher?

[Answer] I hope it won't, because the effect of its announcement would be very pronounced. When you're dealing with inflation, one of the factors you have to fight is that of expectations: prices often go up simply because people expect wages to go up. With the assumption in my proposal, enterprise would know that for 18 months it can count on labor costs' rising ever more slowly, and on inflation's coming down too.

[Question] I still want to know: what if, in the end, inflation were even higher?

[Answer] There would be a levelling-off.

[Question] And the employers would pay for it?

[Answer] Only in part.

[Question] What part?

[Answer] The difference between 5-percent inflation and the real rate would be spread in equal shares among the state, the employers, and the workers. The state would have to give the workers tax exemptions amounting to a third of the difference between what the workers actually got and what they should have got. The employers would chip in another third, and the workers would contribute the final third. That looks like a fair plan to me: the time starts with a wager that by 1985 inflation will be down to 5 percent. If you lose the bet, the three principal players will have to put up a third of the stakes each. I don't see any other way: you have to manage somehow to put a strong rein on real wages and, maybe, even cut them. Everything depends on the way inflation goes. Should it start to really come down, that will be enough to contain real wages. But if it should continue to rise, then you'll have to cut them.

[Question] Wouldn't it be possible to take some other way? Cut government spending, for instance?

[Answer] Obviously, in Italy the government spends too much money, and spends it wrong. But to believe that this is the main

cause of inflation would be an error. If anything, inflation is what fuels the public deficit. This is a very long and complicated problem, but there is one given you can think about. Italy's deficit today is 70 trillion lire, of which no less than 50 trillion lire is debt service: because of inflation, interest rates must stay high, and hence the state must pay out colossal sums in interest on BOTs and other public securities. Just try slowing inflation and you'll see how the budget deficit comes down.

[Question] That's a somewhat paradoxical theory...

[Answer] I know: nobody likes it. But I've thought a lot about it, and I know I'm right. When I say that the budget deficit is not a direct cause of inflation I do not mean, obviously, to spend even more irresponsibly than it does now. All I am saying is that the prime cause of inflation is the failure to make a downward adjustment of the real unit costs of product and in the so-called automatic mechanisms; the presence of strong inflation, through the mechanism of interest rates and the indexing mechanisms that affect public spending as well (civil service salaries and pensions) automatically swell the budget deficit.

[Question] So, in your view, then, it is wages that are at the core of the problem?

[Answer] Yes. For years I have been explaining this, and nobody listens. And it is clear that the other remedies that have been tried have not succeeded in bringing inflation down.

[Question] And you rule out the possibility of concentrating on the budget deficit?

[Answer] That's a shortcut, but an illusory one. Those who suggest it propose cutting expenditures and imposing new taxes. I go along with cutting expenditures: that ought to be done even if there were no inflation, because a government ought to be prudent in its spending, too. As for the tax question, though, is anybody opposed to cracking down on tax evasion? People in Italy pay a lot of taxes, partly because so few of them pay any -- and honest citizens are forced to carry an excessive tax burden. To hit them harder seems to me to be unfair, and maybe it could lead to more disorder than order.

[Question] Right now there is a degree of enthusiasm in Italy for the idea of levying a very heavy property tax for 2 or 3 years in a row.

[Answer] I have serious doubts as to the feasibility, in Italy, of taxing houses, without an up-to-date deeds register and without the proper instruments. Even leaving aside the matter of equity, it is not an idea I should call practicable.

[Question] So the only answer, then, is to adjust the COLA?

[Answer] There's really nothing else for it. And we must do it quickly. The alternative is to put up with inflation or else to hope that the decline of inflation in other countries will pull Italy's down too, automatically. Meanwhile, though, Italian inflation, as I said before, might very well get out of hand.

La Malfa Interview

Rome L'ESPRESSO in Italian 26 Jun 83 pp 158-161

[Interview with Giorgio La Malfa, Budget Minister in the Spadolini government, conducted by Salvatore Gatti, date and place not given]

[Text] The Fanfani government was a disaster. Ruffolo's prescription would merely aggravate what's wrong right now. The only answer is Ciampi's formula, but it must be applied with decision, without fear of treading on the toes of lobbies or other special interests.

"The Fanfani government? It was a disaster: it created political instability by pushing the country into elections and sent the budget deficit climbing toward 90 trillion lire. For that matter, Ciriaco De Mita has admitted that the Fanfani government's policy 'was not so rigorous as we should have wished.' Well, then..." Giorgio La Malfa, Budget Minister in the Spadolini government, has no doubts as to who is to blame for the present situation. But later on? What will things be like after the elections? What policies to implement? For the future as well as for the past, the former minister's ideas are clearly defined.

L'ESPRESSO: The post-Fanfani period must be entirely different. How, though? And in what ways?

LA MALFA: Eugenio Scalfari urges us to choose between two lines: Ciampi's and Ruffolo's. In my view, only one of them is sound, and that is the platform line laid down by Ciampi. The Ruffolo line is merely a continuation of the present situation; the idea that inflationary pressures can be contained merely by providing support for jobs or that easing the fight against inflation would lead to better employment levels is an old idea that no longer has any basis. The real enemy is inflation.

L'ESPRESSO: But Fanfani never did seriously come to grips with it...

LA MALFA: No, he didn't. And here there is also a little shyness on Ciampi's part, because the way you fight inflation is with the currency. The governor of the Bank of Italy says that the central bank has no instrument to handle the fight against inflation unless the overall political conditions for doing so are there. That is not altogether correct. The fact of the matter is that the central bank has the real instrument to lead the fight on inflation, and that instrument is monetary policy.

L'ESPRESSO: So you maintain that the Bank of Italy has given in too much to the pressures of inflation?

LA MALFA: Precisely. My opinion is that both the budget policy and the monetary policy are too permissive. And it is worth noting, witness the case of the United States, where inflation has been beaten with the monetary lever alone, since the US budget is as deep in deficit as our own, that, if the central bank wanted to, it could fight inflation all by itself.

L'ESPRESSO: But is it true that the bank didn't have the government behind it?

LA MALFA: It is true that the last few Treasury ministers either didn't want a restrictive monetary policy or failed to support one. And the result is that, this year, the monetary base is rising at the rate of 16.5 percent and that total internal credit is rising by around 21 percent. This is why it has been impossible, practically speaking, to reach the goal of 13-percent inflation. And that leaves us completely out of line.

L'ESPRESSO: But what, then, according to you, should the Bank of Italy do to fight inflation effectively?

LA MALFA: Over the next 3 years, expansion of the money supply must be slowed by 2.5 percent per year. Starting from 16.5 percent works out to 9 percent at the end of the 3-year period. This represents, in my view, the top limit on expansion of the money supply. At that point, inflation should be running no higher than 7 percent.

L'ESPRESSO: A monetary squeeze means doling out financial resources on a highly selective basis.

LA MALFA: Precisely. We have to decide whether the private sector or the public sector will be hardest hit. And I don't think there is any doubt that credit, which has been heavily drained by the public sector, should flow again into the private sector if we want to restore the economy.

L'ESPRESSO: And this means beginning to make serious cuts in public spending...

LA MALFA: Of course. There is talk these days about stepping up pressures in tax collection, and about a property tax. I am absolutely opposed: the productive system must stop transferring new resources into the public one. Nobody should look for alibis for not hitting hard at what I call the four horsemen of the Apocalypse: pensions, which account for 24 trillion of the deficit; health, 30 trillion; local governments, almost as much; and debt service, 50 trillion.

L'ESPRESSO: Shall we get down to the practical level?

LA MALFA: Of course. Some serious attention to pensions can mean savings of trillions of lire. The Fanfani government a short time ago scrapped a rule that barred payment of the minimum pension benefits to those who had other income; that vote-catching move must be cancelled. There should also be a thorough review of disability pensions: it is absolutely unbelievable that Italy has 5 million invalids and Germany has only 500,000; we need a real review, with medical examinations, and some changes in the law -- which is fairly ambiguous -- as well. The problems are political, though: just think of the independent farmers, who altogether have a 10-trillion-lire debt.

L'ESPRESSO: What about health? Isn't that a political issue?

LA MALFA: It is also an institutional problem, a problem of balancing the nation's books. The local health units (USLs) these days are paid whatever the bottom line on their vouchers says. Nobody is responsible. What we have to achieve is a situation in which a particular agency, say a Region, is required to make up any deficit in its own health budget, if necessary by enacting appropriate tax laws. Besides that, ways must be found to spur competition between public and private health services; and to introduce principles and guidelines for encouraging entry into this field by private operators.

L'ESPRESSO: Would that prescription or one like it work as well for the local governments' deficits?

LA MALFA: Yes, and here again there is the problem of responsibility; and in this case again local agencies must be responsible for their own deficits and free to cover them with their own tax revenues.

L'ESPRESSO: Back in the real world, in addition to your four horsemen of the Apocalypse, there is another: the financial resources shunted to enterprise, primarily to public-sector firms...

LA MALFA: It is necessary to limit disbursements of capital funds to state participation companies, perhaps by ruling that they cannot exceed the increases in corporate capital quoted on the stock exchange; and we ought to let public corporations that report per capita losses over the cost of labor of every employee to go under, because it costs less simply to pay the wages; and in addition, private operators ought to be brought back into the public sector, even if this has to be done through minority capital holdings, protected by special parasocial agreements.

L'ESPRESSO: But then what becomes of the government funding to private enterprise, the buxom beneficence of PL 675, with trillions up for grabs?

LA MALFA: My idea is quite specific: it should be totally abolished. Why? Partly because it is so complicated that only the big companies have access to it; partly because it is slow and comes too late; and partly because it allows far too wide discretion and is hence a vehicle of corruption. It must be replaced with simple, automatic mechanisms, such as the negative value-added tax, [and] tax incentives for new investments.

L'ESPRESSO: A very tough program indeed. A program, though, that will have to get through Parliament, where it will be ditched by the pressure groups that control it...

LA MALFA: No, not if individual deputies are barred from introducing spending bills and amendments. All bills involving major expenditures of public funds will have to be introduced only by the leaders of the parliamentary groups. And, in return, the group leaders of parties supporting the government majority will not exercise this right, nor amend government bills, but send them back to the executive. This way, Parliament will receive only bills from the government and those from the opposition, and the lobbies will not be able to leap into the breach via their own deputies, thus occasionally shattering the majority. This is the way it's done in Great Britain now, there's nothing impossible about it.

L'ESPRESSO: And you think you can shepherd the future majority into supporting these positions?

La Malfa: If the parties do agree to a policy like the disastrous one proposed by the Fanfani government, nowhere is it written that the next government will have the support of the Republicans. The country needs a complete change of course.

Sylos Labini Article

Rome L'ESPRESSO in Italian 17, 24 Jul 83

[17 Jul 83 pp 132-138]

[Text] Prices are going up in our country in response to particular and specific mechanisms. And so a squeeze on money and credit, which is effective in fighting inflation in the United States, wouldn't yield good results in Italy.

We have heard some important opinions by way of diagnosis and treatment for inflation. A little over a month ago, [Bank of Italy] Governor Ciampi's views were made public. Recently, we got the PROMETEIA report, which was reported at some length in issue 26 of L'ESPRESSO. Shortly before that, again in L'ESPRESSO (issues 24 and 25), Franco Modigliani and Giorgio La Malfa had

come forward with ideas meriting close attention. These are the ideas I should like to comment on in this article and in a later one.

Modigliani attributes the utmost importance to labor costs and, at the treatment level, to measures that could hold back their escalation, while La Malfa attributes prime importance to the money supply, and since the money supply is growing, partly to finance the budget deficit, that deficit must be drastically reduced. In an article published in LA REPUBBLICA of 15 June, La Malfa himself says that we must halt the rise in labor costs, as Modigliani argues, but that doing this will not be enough: at the same time, he says, we must reduce the overall supply of money and credit. In a letter to REPUBBLICA in 1 July, Modigliani says that he agrees with La Malfa, but on condition that the cutback on new money supplies be accompanied by a ceiling on wage increases; otherwise, he argues, the only effect of that cutback would be to create mass unemployment, as happened in England and in the United States.

The question is one of vital importance: what we are arguing over now is the basic line that the next government -- whatever it turns out to be -- must follow. That is why we need a systematic, thorough investigation which, owing to the nature of the problem, can be neither brief nor free of technical detail.

Let me say right off that, by and large, I agree with Modigliani and with La Malfa; my diagnosis, though, is quite different and so, consequently, is the treatment I would prescribe. The main difference lies in the fact that both Modigliani and La Malfa are implicitly talking about a general price level, with an obvious propensity on Modigliani's part to see that -- as Keynes did -- as essentially governed by costs, especially labor costs, whereas La Malfa tends to zero in on variations in overall demand and in the money supply. What I think, though, is that we ought to junk the concept of a general level of prices, and that we ought to begin making a distinction between wholesale prices of raw materials -- including agricultural raw materials -- and wholesale prices for industrial products; and again, between wholesale prices and retail prices -- somewhere, buried in them, is the marketing margin. And lastly, with reference to consumers, we need to distinguish between prices for goods and prices for services, among which we must consider public services. In inflationary times, prices in all categories -- or almost all categories -- tend to rise, albeit at different rates; but the mechanisms that drive those increases are different.

Month by month, or even week by week, prices for agricultural and mineral raw materials respond to the stimuli of supply and demand, most acutely to those of demand, since, through the variations in inventory levels and international exchange rates, within certain limits, supply adjusts fairly quickly to price changes; supply

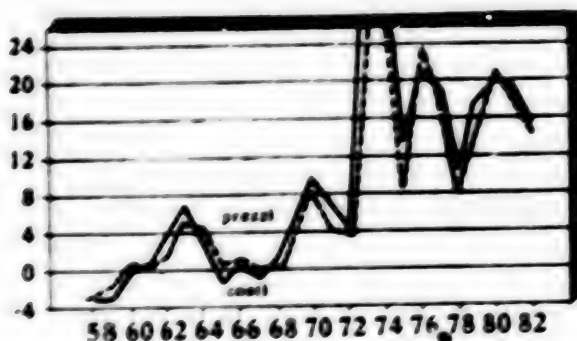
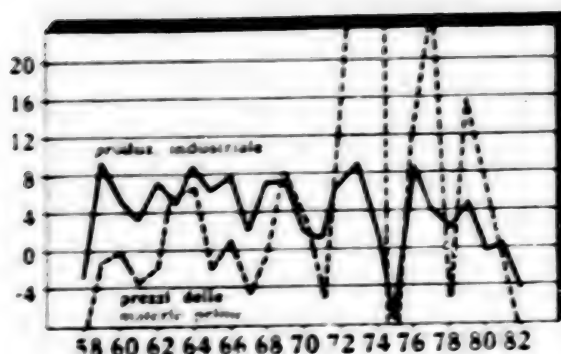
becomes critically important only under special conditions -- poor harvests in very large areas, strikes in major mines, or wars. In Italy, domestically produced raw materials are mainly agricultural, and their prices depend not only on demand, but on international -- especially European -- prices and exchange rates. Far more important to our economy are imported raw materials, whose prices depend primarily on world industrial production (it is industry that needs raw materials to process) and, for us, on the cost of foreign currencies, particularly the dollar. The first graph shows clearly the connection between the dollar prices of raw materials and world industrial production (there is a similar connection between domestic farm prices and domestic demand, although in this instance European farm prices have considerable impact as well).

There is a different logic, though, that governs the price variations in industrial products: here it is costs that dominate, but not only labor costs -- as Keynes substantially assumed, and as Modigliani still does -- but also raw materials costs (other costs have only a negligible impact on prices over the short term). The connection between those costs and prices in industry, as shown clearly in graph 2, close as it already is, turns out to be even closer when we allow for international prices of finished products, which act as a ceiling on domestic price increases and which not infrequently hamper complete shifting of cost increases to prices, thereby squeezing profits.

The reason why different mechanisms govern variations in these two categories of prices lies in the fact that in agriculture the products are homogeneous and their producers are very numerous: no single individual can do anything about prices, which depend solely on an impersonal market. In industry, on the contrary, the concentration of producers, as in the automobile industry, or product differentiation (to which advertising is a major clue) have created conditions in which producers need not passively respond to the market, but can -- albeit to a limited degree -- influence prices; what they actually do is to adjust prices in relation to costs. If there is a change in demand, it is the level of production that changes, not prices, except in truly exceptional cases.

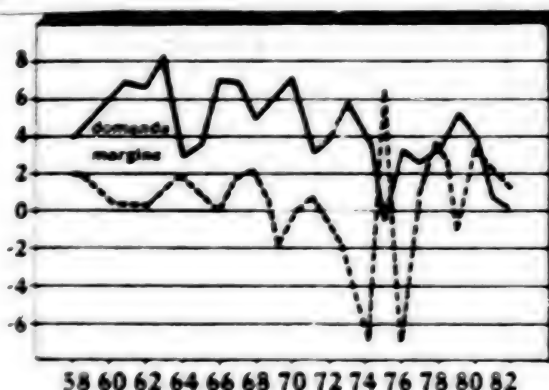
In trade, just as much as in industry, it is costs, not demand, that dominate; in trade, the rule is differentiation among vendors, particularly among those who are dependent on location. Hence retail prices of these goods do not vary in exactly the same degree as do wholesale prices: the behavior of the middleman's margin is what reflects not only net profit but unit costs, which tend to rise when demand drops and to decline when demand grows -- as shown clearly on graph 3. That margin thus tends to change conversely as demand pressure: and that is a performance that may seem paradoxical if you believe that all prices depend on fluctuations in supply and demand, but which look quite normal if one

Percentage variations in prices of raw materials (broken line) and industrial products (solid line).



Percentage variations in prices (broken line) and costs (solid line) in Italian industry

Profit margin and demand in Italy. (The margin is given by the difference between percentage variations in retail prices and those in wholesale prices: services not included: demand pressure is measured by the percentage variations in the volume of private consumption).



is aware that, in some sectors of the economy, it is the logic of costs that prevails (of course, the marketing margin will also depend on sundry other factors, including indirect taxes).

Thus far I have been talking about prices of goods. There is another logic that governs fluctuations in leases and services, particularly utilities such as power, transport, and telephone services. Here the dominant considerations are political, including concerns of a more purely financial nature connected with deficits in individual management operations: as a consequence, fluctuations in prices and rates in this sector tend to be more or less erratic; the most one can say is that increases occur mainly in periods of recession, when tax revenues flow more sparsely and the public deficit grows. It is a truism that it makes no sense to provide utility services below cost; but the people who repeat this are overlooking the shortfall in taxes and to industry due to the COLA jumps triggered by rate increases: a reduction in specific deficits can entail an increase in the overall public deficit and a heavy increase in costs to private as well as public enterprise. From the table, which shows the figures for the last 9 years (the years when inflation raged most fiercely), we see that in many cases the prime contribution to the increase could be attributed to miscellaneous expenditures, among which those stemming from public utility rates are important.

From this diagnosis it is clear why a restrictive monetarist policy, in a country like Italy, can not but entail extremely high social costs and disappointing results. The fact is that a credit squeeze reduces overall demand and brings about declines in production and jobs in industry -- the biggest sector of the economy -- but not in prices, which in this sector depend on costs, rather than on demand. Restrictive policy, on the contrary, impacts on the prices of raw materials and, through them, on costs and hence on prices of industrial products, and, in turn, on the cost of living and on wages and, through wages, on most prices. But in a country that imports most of its raw materials these effects are not only indirect, but limited as well.

The question arises in radically different terms if the country in which the money-supply and credit squeeze is applied is a colossus like the United States. Here, any decline in demand automatically means a drop in raw materials prices on the international market. In Italy, on the other hand, the only prices affected will be those of domestic raw materials, almost all of which are farm products and which, considering the safeguards set up by the European Community, feel the impact of slackening demand only moderately. It is quite true: a restrictive policy, precisely because it does bring about a decline in incomes, tends to slow imports, and thereby to strengthen exchange rates -- all of which constitutes another thrust against inflation. All things considered, though, the fact remains that, in a country like ours,

the anti-inflationary effects of a tight monetary squeeze can only be very limited, and the social costs can only be very high. Not that the social costs in the United States have not been high: the credit squeeze and the consequent economic slump have, in less than 2 years, brought mass unemployment, which has, along with other factors, helped to slow wage increases and hence price rises. But there has been an effect (and one, I believe, that does not match the sacrifices entailed). The prime brake on inflation, however, has come from the cost of raw materials and not from the cost of labor, as Modigliani argues, just as in years past the prime fuel for inflation came from those same raw materials.

The decline in raw materials demand and prices precipitated by the restrictive policy of the United States has also helped other countries in their fight against inflation. Unfortunately, our advantage has been modest indeed, owing to the skyrocketing exchange rate of the dollar, in which we must pay for most of our purchases of raw materials. The damage has been enormous, though, to all countries, as an indirect result of the slump in the North American economy and of the high interest rates that were imposed to bring about the decline in demand.

[24 Jul 83 pp 137-145]

[Text] To stop rising prices you must take action both on the budget deficit and on labor costs. But how? By reforming the welfare system and by using the tax lever. And the unions...

The rule preached by the montarists, and accepted even by economists who are not monetarists, stating that the central bank must consider expanding the money supply at a predetermined rate, looks like a simple, effective and wise rule: but it is not so wise as it looks. To concentrate all your attention on the level of the money supply without giving the absolute maximum priority to the pressures that force the central bank to create new money means setting out along a very perilous road. Let's say that only 4 percent of new money ought to be created each year.; and let's suppose that the government and Parliament agree to enact laws calling for expenditures that cannot be covered either out of tax revenues or by issuing securities: that leaves nothing for it but to print some more money. Let's suppose, now, that this newly created money soaks up 90 or 95 percent of the established level for the money supply: inevitably, then, you are going to have a credit crunch which it would be charitable to call ferocious: the economy would be plunged into an extremely deep depression. Would that at least vanquish inflation? For all the reasons cited in my earlier article, it would not: it would be slowed, but not beaten.

The monetarist policy of tight restrictions is paradoxical, on the face of it. If all countries are finding it extremely hard to reduce the budget deficit, the rule for setting a target for expansion of the money supply cannot but hurt enterprise. How can anybody see such a policy as "Rightist," even though it is defined as such? The paradox is heightened by the fact that the monetarists issue no call for urging moderation on the labor unions, nor have they uttered any criticism of wage indexing.

In seeking to unravel the paradox, one is inevitably moved to consider a political wager: economic damage may appear less massive than the expected "advantages": delivering body blows to the labor unions -- hard enough to leave them divided and in disarray in the long run -- and, citing the irreproachable goal of reducing the budget deficit, inflicting savage and indiscriminate cutbacks on public spending, especially those labeled as social costs, which, in part, constitute political support for the "Leftist" parties.

Let's get this straight: some drastic reduction in the deficit is vital, and we need to attack it from the angle of growth in government spending as well; but if the cutbacks and legislative amendments are not forthcoming with sound discrimination "from the Left," they will be provided savagely "from the Right" for purposes which it would be by no means improper to define as reactionary.

In my previous article I centered mainly on the internal causes of inflation. There is an external cause, too, the cause which, over the past decade, has set off world-wide inflation -- braked in only a few countries and only at the cost of very painful sacrifice. That cause is the crisis in the international monetary system, a crisis which began, officially, in 1971 when Nixon repudiated the Bretton Woods agreement. The crisis took on flesh and substance in violent fluctuations, particularly upward, in the prices of raw materials: the graph on page 135 in last week's issue is enlightening on that score. Of course, the violent fluctuations that occur after 1971 also have to do with exceptional events: deteriorating relations, the Yom Kippur War, and others. But the process has been far too systematic to be explained solely on the basis of those events. The basic reason lies precisely in the crisis of the international monetary system and in the abandonment of the orderly currency exchange system, both of them relatively inflexible. Since 1971, the spurts of speculation in the exchange markets as well as in the raw materials and commodities markets have grown far more virulent.

At this point we are in a position to grasp the complexity of the problem. Inflationary thrusts are different, according to price categories, even though the increases interact and spread in different ways. There are some wage-indexing mechanisms, such as that introduced in Italy in 1975, which tend to magnify the

initial thrusts. On the other hand, the budget deficit -- which is fueled in part by that same old devil, labor costs -- if and insofar as it is financed by the expanding money supply, increases overall demand and pushes farm prices up; by contributing to the growth of imports, it can also push up prices of imported goods. (If, and insofar as the deficit is financed with bonds, it will push interest rates up and hence deter investment and production growth, which is a counter-inflationary factor. If a really serious anti-inflationary strategy is adopted, it will call for a very careful assessment of the costs and benefits entailed by the deployment of the two channels of deficit financing: the money supply and bond issues). That leaves utility rates and indirect taxation, whose inflationary impact is too frequently overlooked.

Labor costs, the budget deficit, tax policy, and utility rates: these are the three major domestic sources of inflation; and since tax and rate policy is intimately linked with the size of the budget deficit, we can cut the number of major domestic sources to two. The main ongoing external source is the crisis in the international monetary system, still with us, since the European snake, which holds exchange rate fluctuations within pretty tight limits, does not include the dollar, which is the prime medium of payment in the raw materials markets. The increase, which on occasion may assume explosive proportions, in raw materials prices creates sudden upsets in the foreign accounts of industrial countries and makes restrictive credit policies inevitable with a consequent halt in the growth process and, over the course of years, with a serious weakening of the process itself. As a consequence, the growth of tax revenues also slows; this phenomenon, together with the acceleration in government spending brought about in part by the economic difficulties themselves and in part by legislation passed during the years of the fat kine, has given rise to growing deficits, with growing offers of securities and rising interest rates: this has further obstructed the development process. These phenomena are common to all industrial countries, but in Italy they have taken on some particularly menacing overtones, mainly because government action this far has been weak and contradictory.

As for reforming the international monetary system, there is not a great deal we can do; we can, however, press for the setting of specific margins on dollar exchange rates between Italy and the United States: this is the necessary premise for arriving, at some later date, at a new grand accord, which will have to go well beyond monetary problems and which must take into account not only the industrial powers, but those of the Third World as well.

At the domestic level, the way out does not run through a very tight monetary squeeze, because that remedy would be worse than

the ailment. The ways out are those that have been pointed out so many times, albeit usually in fairly vague terms: drastic reduction of the deficit and putting the brakes on rising wages. The political difficulties are staggering; they are rendered still more serious by the harrassing fire of inflammatory slogans. The situation is grave in the extreme: we need penetrating and unbiased analyses, not slogans.

The Deficit

In recent times politicians of the most disparate ideologies have made a striking list of the dysfunctions and waste stemming from the pension and health systems. Why, then, not introduce proposals for organic reforms into Parliament at the earliest possible moment? There is, however, a matter of principle: the various kinds of assistance are provided out of public funds only to low-income people; and indeed, for these people, the assistance must be increased; the others must pay for these social services, in whole or in part. The right thing to do, then, is to start working on reforming the welfare reforms as well as the instrument for administering them -- the state, and revive the Giannini proposal.

Wages

Somebody has said that the cost-of-living index we have no longer does any harm, because it now compensates for only 60 percent of the inflation rate. People forget, though, that there is the single-point system, and that that 60 percent represents the mean between 90 percent for the lowest levels and 25 percent for the top. This tends to produce flattening, which can be partially attenuated only by differentiated increases, granted at the plant or even the individual level. The 90 percent of the lowest strata will thus rise well beyond that level because the COLA is not the only factor involved: there are also national and company contract negotiations. I have several times suggested changing the single point to a quota (yes, 60 percent) which would have no adverse effect on employed workers as a whole, and would constitute a major step forward. By this time, though, there have been so many formulas suggested and even the unions themselves, not too long ago, declared their willingness to talk about overall wage reforms. For the lower levels the fiscal approach -- shares and allowances -- could work, according to a criterion already accepted in principle by the present government. Not only this government, however, but previous ones have made very shabby use of this power given them by inflation itself: the power to let the fiscal tap run wide open unless demands were in strict compliance with certain rules. There must be timely preparation of studies and instruments that will put the government in a position to use the tax siphon as part of wage policy. At the same time, new ways and means, including new legislation, must be put in place to combat tax evasion: reorganization of the Finance

Ministry, codification in law of selected "assumptions" as to income, the use of modern sampling techniques to reveal evasion, revision of the real estate records, and revision of the tax provisions pertaining to family-held corporations. A serious crackdown on evasion is far preferable to imposing new taxes. The high road out of the mess, though, is to lower the upward angle of spending creep.

It is doubtful that, under present conditions, our country will benefit by the recovery now under way in the world economy. In the most optimistic of scenarios, there might be a recovery undercut by higher inflation: let's not forget that the American economic recovery can push raw materials prices up.

At the domestic level, I see no way out except with the active cooperation of the labor unions. I don't think labor should usurp the place of the politicians. But if they can agree on a joint program and set it before the political parties, the government will have to pay attention to it.

The Floor

I have argued on many occasions, and so have other economists like Federico Caffè, that the floor must be replaced with a "labor plan," a handy abbreviation covering the whole complex of measures designed to start incomes rising again and to absorb an increasing share of unemployment among the young. The specific proposals are numerous and many of them were advanced by the unions themselves, more part-time and temporary jobs, a Youth Labor Army to work at home and in Third World countries, all-out support for scientific research that could expand and upgrade the service sector). The thing now is to get these proposals into some kind of order and to work out an organic program. Such a program, however, will call for financing which, right now, with the budget in such disarray, is out of the question.

Some very hard sacrifices will have to be made. But people can accept sacrifices, even painful ones, if they are convinced of the purpose, which can be convincing only if it is not vague and general -- if there is a plan. The attack on the youth unemployment problem could be such a project.

La Malfa Reply

Rome L'ESPRESSO in Italian 31 Jul 83 p 102

[Text] The distance between Sylos Labini's view and mine (and I think Franco Modigliani's as well) in the area of economic policy is not nearly so great as it would appear at the beginning of the lengthy essay on inflation that appeared in L'ESPRESSO's issues 28 and 29.

Sylos argues that a highly restrictive monetary policy, combined with a massive budget deficit, would put such a squeeze on the directly productive sector as to bring about grave consequences in employment. I believe that most economists would subscribe to that assertion.

He adds that such a policy would not even be fully effective in taming inflation. I have my doubts on this score, in the sense that wherever drastic monetary policies have been adopted, from Germany's inflation in the Twenties to recent monetary policy in the United States, to cite inflationary situations of quite different intensity, they have been effective in halting inflation. But this is a moot point, irrelevant to the purposes of the current issues in Italian economic policy, since neither I nor Franco Modigliani has suggested that we ought to adopt a restrictive monetary policy without first dealing with the budget deficit and with the rising costs of labor. The fact is that the next government's economic policy must have, as its keystone, as Sylos says, "drastic reduction of the deficit and a slowdown in wage increases." But it must also devise a monetary policy that will not leave the way open for a new flush of expectations of inflation and inflationary pressures.

On all these points, we must have clear commitments begun at the platform agreement stage of forming the government.

As to the government's requirements, in 1983 they edged toward 90 trillion lire and topped 100 trillion for 1984, and now promises to settle somewhere around 120 trillion. Adding to this figure a suitable amount for the credit requirements of the productive sector, we find total internal credit expansion 20 percent higher than in 1983 and still higher in 1984.

To assume that inflation can drop to 13 percent by the end of 1983 and the middle of 1984 and that at the same time there can be an economic recovery of 2 percent or more, as some predict, looks completely contradictory on the face of it. At the budget deficit level we have reached, if it is financed even if only in part, with monetary means, inflation cannot come down; if interest rates are held high enough to get people to buy government securities again, there can be no recovery.

Therefore the first thing we must do is to set precise targets for reducing the '83 and '84 deficits and take steps in that direction. We don't need vague, general promises along the lines of "every new expenditure must be covered by new revenues," because such promises would be broken at every step: what we need to know is what are the limits -- in figures -- within which limits we propose to hold government requirements.

The second matter has to do with labor costs. If inflation is to come down to the European level, labor costs will have to slow their rise in line with that goal. Here we have to choose between

cooling down the COLA machinery, perhaps by making adjustments annually or by phased cutbacks in the number of adjustments per year. It is now clear that the 22 January agreement, aside from its many areas of ambiguity, does not leave room enough for contract revisions if we intend to keep the lid on inflation. It then becomes a matter of figuring out how to reconcile these requirements.

If the budget deficit and labor costs are in line with the goal of reducing inflation, monetary policy, too, can perform in a manner consistent with a reduction of inflation, without triggering the adverse consequences Sylos fears. If it does not behave in the requisite manner, however, it may well refuel inflationary pressures. These are the three essential keys to an economic recovery policy, and politically they are not easy, partly because the crisis in the productive system and especially in the state participation enterprises, from steel to aluminum, will tend to trigger requests for additional financing for the public sector.

We must come right out and say frankly that there is no room in this field, just as there is none for fumbling efforts to provide jobs. The only road we can follow is the high road of bringing inflation down and restoring our productive structures to health.

Sylos Labini Reply

Rome L'ESPRESSO in Italian 7 Aug 83 p 94

[Text] In the last issue of L'ESPRESSO, Franco Modigliani, in an interview with Giuseppe Turani, repeated and further explained his proposal for dealing with inflation, and Giorgio La Malfa, commenting on an analysis of my own which appeared in issues 28 and 29, makes the point that the distance among our three approaches is not very great.

La Malfa is right. Even so, the issue is so important that we must eliminate any slightest chance of misunderstanding. And so I shall attempt to sum up all three positions briefly.

Modigliani. 1. The rise in prices depends primarily on the cost of labor; hence the need for reforming the cost-of-living machinery and setting the adjustment trigger-points in advance. 2. While it is doubtful that the huge budget deficit contributes to inflation, it is certain that, by soaking up a large share of savings and pushing interest rates far too high, it is the main reason why investment is languishing. 3. In our country's present condition, to force an expansion of credit in order to fuel demand and reduce unemployment would be a grave error; but it would be every bit as grave an error to impose a tight monetary squeeze by reducing the growth-rate of our total internal credit supply; the wisest policy is one -- substantially the one we are pursuing now -- of moderately restrictive monetary policy.

La Malfa. 1. The rise in prices depends primarily on the expansion in the money supply; that is why "the way to fight inflation is to use the money supply."

2. If we want to avoid letting the money squeeze hit hardest at the enterprise sector -- and the consequences to investments and employment we are all aware of -- we must cut public spending ruthlessly. 3. At the same time, it would be helpful in the fight against inflation to hold down the rising cost of labor.

My own position can be summed up in two positions. 1. The rise in prices in industry stems primarily from labor costs; in other sectors it depends on other factors; rates and taxes cannot be overlooked. 2. The budget deficit contributes not only to the slump in investments and in jobs, but also to inflation, directly and indirectly as well (farm prices, exchange rates, rate increases, and taxes).

My position is thus closer to Modigliani's than to La Malfa's; specifically, I agree completely with Modigliani's point 3. The keys to a cure, in other words, are two in number (labor costs and the deficit), not three; the money supply must be prudently managed, of course, but it cannot be viewed as a remedy in and of itself. I differ with Modigliani, though, on several points and in particular on the influence to be attributed to raw materials prices, particularly those of imported raw materials. Hence my suggestion that Italy -- as part of a vigorous recovery program -- raise the issue of limits on the oscillations of the dollar in relation to all European currencies at the European level.

I have long agreed with Modigliani as to the need for reforming the COLA machinery (percentage points in place of fixed points); all things considered, I also agree with his suggestion that the adjustment trigger-points be pre-set. I will say, though -- and this is the main reason why I decided to write this note -- that any rule having to do with wage increases must be based on the power with which inflation itself has endowed the government: the power to let the tax siphon operate at full tilt if labor's demands do not abide by those rules. Until now, the government has used that power very ineptly; actually, it has hardly used it at all. This is a key point which neither Modigliani nor La Malfa raises: tax policy as a tool for implementing wage policy which is not based merely on exhortations -- or on threats of the hangman's noose.

As for the budget deficit, for at least a year I have been pointing out that the growth of spending in real terms is on the order of 9 to 10 percent, that of revenues at 3 percent, and that of incomes, which has been close to zero for the past 2 years, will hardly top 2 or 3 percent -- again in real terms -- any time in the near future.

The double lag is absolutely intolerable, even the one on revenues which reflects the tax drain. This is why drastic action is urgently called for so as to achieve an immediate and significant reduction in the deficit and, in the future, to bring down the rate of increase in expenditures and revenues, gradually pushing them into line with 2 or 3 percent in real terms. This is an operation that will call for reform of the social reforms and reform of the decision-making centers and of the organizations which handle government disbursements and collections; most of all, it calls for some pretty remarkable political courage. There are no alternatives, though, if we want to break out of the spreading swamp of stagnation, rendered socially unbreathable by the pestilential vapors of double-digit inflation.

Drastic reduction of the deficit and of its growth would make increased investments possible, and hence would enable Italy to find her proper place in the international recovery. This would not suffice, however, for effective action on unemployment and, in particular, against unemployment among the young: we need a "labor plan" with public backing that the state can give only by cutting the level and the growth of current expenditures.

From Modigliani's replies we can perceive how the timing ought to go: first the fight against inflation, and then action against unemployment. In my view, both should be undertaken at once: it is not paradoxical to say that a two-pronged action of this kind, difficult though it may be, would be less difficult than a two-phase policy, considering the support that could be forthcoming both from industry leaders -- hoping for more available credit -- and from the labor unions -- eager for the fight on unemployment.

'PROMETEIA' Study on Economy

Rome L'ESPRESSO in Italian 3 Jul 83 pp 150-153

[Article by Giuseppe Turani]

[Text] If economic policy keeps running the way it has in the past, the economy will collapse. But if we devalue the lira, if we freeze wages and rates, if we tax estates, though....

We have had a new Parliament for the past few hours. Within a few weeks we shall have a new government. And people are beginning to ask each other: what will this next legislature be like? The one that was supposed to last until 1988?

The answer to this question, at least insofar as it concerns the economy, is forthcoming in the latest study by the Bologna research center known as PROMETEIA, founded by former Treasury Minister Nino Andreatta (who is still its spiritual father). Its findings are fairly easy to grasp: our economy has stumbled into a "Catch 22" situation. In order to start growing fast

enough again, we need to be competitive again vis-à-vis the countries that are our rivals, and we can do this by devaluing the lira. Except that if we devalue the currency, inflation will go back up again, which will force us to put the brakes on the economy to avoid still worse troubles. And so we are doomed to swing back and forth, maybe forever, between timid starts at recovery and inflation that might drop a little, but never levels off at anything near the level our competitors have. That is the trap. Is there any way out of it?

Yes, say PROMETEIA's research people: austerity and sacrifices. And just how much would those sacrifices hurt? They have calculated that lira by lira, clear through 1988; we can expect them to be painful, but not unbearable. In fact, a lot of people will be surprised: given the times we live in now, we might have expected to have to tighten our belts again.

Here, though, are PROMETEIA's figures in detail. Using computers and a model of the Italian economy, they mapped out two scenarios running to 1988: the first one is called the "monitoring" and the second is called the "alternative." The first, practically speaking, is the one that will be played out if the political situation continues the way it has been going, with a government made up of a clutch of parties that cannot agree on measures of austerity and financial rigor: "Imagine a Spadolini government running Italy for 5 years," say the research crew, laughing.

The second, the "alternative," might have a chance if we get into a political situation where somebody could build a consensus and enough strength to make Italian society swallow a bigger dose of austerity and sacrifice. In practical terms, that would seem to mean if the DC, in the new government, can get control of economic policy.

What would happen to us in each of the two cases is shown in the table (which we put together ourselves and which does not appear in the PROMETEIA studies). With the "monitoring" scenario (continuing the present situation) from 1984 to 1988, the Gross Domestic Product (GDP) will grow by 14.3 percent overall, which works out to an average of 2.7 percent per year. Investments will rise by 31.0, or 5 percent per year. Industrial production will go up by 22.5 percent, which is 5.5 percent per year. Inflation will grow over the 5-year period, by a total of 69.8 percent: what costs 1,000 lire today would cost 1,698 lire at the end of 1988. On the average, prices will go up by 11.2 percent a year. The important datum on inflation is that, in this scenario, even after 1988 we are going to have inflation higher than 10 percent: a result that is quite rightly described as unacceptable, since even today our major competitors have an edge over us with inflation below 5 percent and still dropping. Wages would go up between 1984 and 1988 by 82.6 percent; if you make a million lire a month now, you might be bringing home (not allowing for fiscal drag) 1.826

million. Your "gain," when set against price increases, would amount to 128,000 lire. Employment would increase by 4.7 percent over the 5 years, or 0.9 percent per year.

As you can see, this is not a scenario that evokes any wild applause. If the Italian economy could be compared to an automobile, we could say that from now until 1988, we'd have to do our driving in second gear, and that furthermore, we'd have constant problems with our carburetors. PROMETEIA tells us that in 1988 the Italian deficit in goods and services will be over 14 trillion, while the overall budget deficit will be very close to 153 trillion lire.

Furthermore, this scenario becomes plausible, albeit not very pleasant to contemplate, only at the price of some sacrifices -- big ones: in 1984 and 1985 the growth of real earnings would be zero, and in later years it should be no more than 1 or 2 percent per year. If that didn't happen, everything would be even worse.

Now let's look at the second PROPETEIA exercise, the one it calls "the alternative." The results are summed up in the other column on the table. In the 5 years covered, GDP would be up by 20 percent, which means an average of 3.7 percent per year as opposed to a 2.7-percent average gain under the "monitoring" scenario. That is a respectable figure. Investments over the period would grow, not by 31 percent, but by 45.7 percent, or half again as fast. Industrial production would improve. Inflation would rise over the 5 years and in all, by only 51.3 percent instead of 69.8 percent. Practically speaking, inflation over this period would grow by an annual mean of 6.8 percent instead of 11.2. In this connection, though, the important datum is something else: if we take the "alternative" road, in 1984 inflation will level off just a tad over 10 percent, and drop sharply thereafter to wind up the period at 8 percent.

Wages would rise by only 53.5 percent in the 5 years (as against an 82.6-percent gain in the other scenario). But since inflation would be down, too, we have to run that reckoning through the computer again. In practice, under the "monitoring" scenario (which means going on as we are now), over the 5 years the real growth in wages as compared with prices would be 128,000 lire; in the "alternative" scenario (with DC austerity), somebody making a million lire a month now would get just about 22,000. This is the core point in the question of which one to choose, the hot issue in the political debate that will begin next week. This is the heart of De Mita's austerity insofar as workers' wages are concerned: we'll have to agree to pay envelopes that don't grow quite so fast with respect to prices; we'll have to agree to paychecks that, over a 5-year period, will grow by a scant 22,000 lire instead of 128,000 (in real terms, after inflation, that is) a month. Is that too much of a sacrifice? No, decidedly no.

Especially if you consider that, by following the austerity plan, you get growth in production and investments half again as high as

what we would see under the other scenario, and that inflation would drop below 10 percent very swiftly. Lastly, and this is not something to be dismissed, over the 5 years in question employment would go up by 5.7 percent in place of 4.7: that's not a lot, but it's something.

There would be major progress, furthermore, on the problems of the goods and services and budget deficits. Under the "alternative" scenario, the goods and services deficit would, by 1988, be down below 6 trillion (in the "monitor" situation we were close to 15 trillion), and the overall budget deficit would be barely 92 trillion (as compared with 153 trillion in the other scenario).

At this point the informed reader will have grasped the substantial differences between the two scenarios. With the first one, we stay afloat, but we can't break out of the trap; the Italian economy remains trapped between the need for continually devaluing the lira so as to be able to sell more abroad and to grow, and the practical impossibility of doing that to the degree that would help, for fear of setting off inflation again. With the second scenario, the trap snaps shut on air, and we lay the foundations for faster growth, keeping inflation low along with the deficit in the balance of payments, and in the budget. In other words, it puts us into the re-entry orbit.

The price to be paid? That has already been quoted: it has to do primarily with wages, which would have to slow their growth-rate drastically. The blow would be a hard one mainly in 1984, when there would be an abrupt halt to wage increases: they might go up by only 7.7 percent, while inflation would be rising another 10.1 percent. In 1984, there would be a loss of earnings, due to inflation, of 2.4 percent. After that, though, wages would start to climb again, albeit only a little bit faster than inflation.

How -- assuming we want to -- do we get into austerity? There are six vitally important steps.

1. A 10-percent devaluation of the lira at the end of 1983.
2. Withholding of all cost of living adjustments in 1984, with payment in 1985. Practically speaking, in 1984 we shall go ahead as if there were no COLA (that's the much-talked-of "Carli proposal"). This is, in all likelihood, the issue on which the donnybrook breaks out. Not so much over the size of it as over the political costs of "suspending" the COLA for a whole year.
3. Freezing public utility rates for all of 1984.
4. Imposition of consumer price controls (to hold down the price spiral).

5. Another 5 trillion lire in taxes per year (including the real property and estate tax -- that is what's new in the "Carli proposal") as of 1984, but considerably narrowed in application in 1985. This 5 trillion lire is to be garnered in part from the property tax, rather than confined to individual and corporate income.

6. Reducing interest rates.

These, in summary form, are the answers PROMETEIA's computers came up with to the question: what will happen, economically speaking, in the next legislature? The answers are perhaps pretty much what we might have imagined.

It is likely, though, that the moment talks about the new government begin, the DC will urge its future allies to opt for the more cogent austerity road. On the basis of the reckoning we have shown here, the price we shall have to pay, even in terms of pay envelopes, is not enormous. The psychological and political price, on the contrary, will be very high. Wages in this country have risen, and risen considerably, even allowing for inflation. Now we are talking about calling a halt, a breathing-space of at least 5 years, to make up for lost time. Five years may look like an awfully long time to some of us. But, most importantly, the Left and the labor unions will not readily accept a plan to pay the price of "re-entry into development" tickets out of working people's wages. On the other hand, there is no other road in sight.

Ciampi's Proposed Measures

Rome L'ESPRESSO in Italian 14 Aug 83 pp 104-109

[Article by Salvatore Gatti]

[Text] Bring down the budget deficit; put cost of living increases into the program; control industrial and retail prices; hold utility rates, rents, and pensions down. This is what Ciampi and Craxi are calling for -- and why.

ROME: While the super-dollar continues to lurch like a loose gun over the world's financial markets, and weak currencies like the lira are in ever-deepening trouble, the governor of the Bank of Italy, Carlo Azeglio Ciampi and its general director, Lamberto Dini, a ranking expert in international finance, have been putting together a plan to restore the Italian economy to health and to put it in seaworthy shape to stand up against the international storms. The only reason, in fact, that the dollar threatens to crush the lira, as the President of the United States, Ronald Reagan puts it, is that "every nation has the currency it deserves." And the Italian currency has been undermined by the inherent flaws in the economy and is drifting almost inexorably toward further devaluation come this autumn.

Unless, that is, the "Ciampi Plan" is adopted and the fight against the dollar is waged, not only by burning up Italy's currency reserves but also via drastic intervention aimed at the underlying reasons for the lira's weakness. But just what is the "virtuous" route Ciampi suggested, first as a written prescription and then in a lengthy conversation, to the new prime minister, Beniamino Craxi? What kind of picture did he get of the very trying year that awaits him -- 1984? And what therapy did he prescribe? Here you are.

Dreadful '84

If something is not done at once, with heroic treatment, next year will bring us 16-percent inflation and a budget deficit of 120 trillion lire. That is madness: Six points above the 10-percent level of inflation Craxi is aiming at, and a budget deficit that may well top 18.9 percent of GIP (as against 15.4 percent this year). All the big sectors of government would see their expenditures rise at the rate of 16.6 percent while revenues would be up by only 7.5 percent in nominal, monetary terms, meaning that in real terms they would actually decline. Result: 120 trillion lire in government requirements, which would drag Italy still further down. With what consequences? In addition to high inflation, which is the same for everybody: total internal credit, according to figures given Craxi by the Bank of Italy, 151 trillion lire: take away the 120 trillion the government will need, you have 31 trillion left for the private economy, which would thus get less financing than it got in 1983. Thus the budget deficit would tighten its stranglehold still more cruelly on the part of our economy that generates wealth.

A Virtuous '84

The gloomy fate predicted for next year can be warded off. And it must be. That is the "virtuous" goal (advice Craxi has already made his own) must be that of a deficit held down to "only" 80 trillion lire, and an 11-percent increase in GIP: one point of real growth plus 10 points of price increases plus the 10-percent inflation Craxi's program is ready to accept. That would provide total internal credit availability of 118 trillion and so, subtracting the 80 trillion that would go to the state, would leave 38 trillion for the private sector, or 7 trillion more than the ominous projected "worst-case" scenario. Meanwhile, all the economy's financing activities would grow more slowly than in '83 (as shown by the econometric model delivered to Craxi by the Bank of Italy); in this way we should arrive at a moment of equilibrium, with a halt in creation of new money, thereby giving the private sector more breathing room at the same time. When it is over, there should be more investments and more jobs. This would be the start of that "virtuous circle" which Ciampi and Dini have been crying for during 4 years in a wilderness of successive governments whose willful deafness carried Italy from a deficit of 52 trillion lire in 1981 (Forlani-1 and Spadolini-1) to one of 72 trillion in 1982 (Spadolini-2), to more than 80 trillion this year

(Fantani-5), leaving inflation all but untouched. Just how, though, are we supposed to manage, in the next few months, to install the virtue Ciampi longs to see in place of the vices of the past several years? The governor has provided the prime minister very specific directions for getting there.

The Ciampi Plan

There are four key points in the plan Ciampi delivered to Craxi: reduce the budget deficit, acting on both the spending and revenue sides; the cost of living machinery; utility rates; prices.

Government funding: "For 1983," writes Ciampi, since the year is not yet out and we can still do something, "what is needed is a maneuver on the order of 5 to 10 trillion (to be found from increased revenues and lowered spending) to bring the government requirement down to 80 trillion at most. In the first 6 months of the year, the requirement was 6 trillion per month; if we allow the 1983 requirement to rise to the 85-to-90 trillion forecast, the monthly requirement for the second half-year would be 9 trillion. And that acceleration could trigger financial pressures that would be difficult to control."

What about 1984? "It will take a 40-trillion-lire maneuver," writes Ciampi in his memo to Craxi, to go from a 120-trillion to an 80-trillion lire deficit. "Twenty-five trillion for measures that would have direct impact on revenues and expenditures, and another 15 trillion through financial measures (such as the consolidated treasury) and cutting interest costs, which would be determined by the smaller deficit and the decline in inflation.

"On the revenue side," Ciampi suggests, "the effort should be to hold tax pressures steady with a body of measures that would insure additional tax revenues of 15 trillion lire, net." And on the spending side? "Some adjustment of indexing [COLA: Ed.] for entitlement programs in line with what the private sector is doing, and a review of other spending categories so as to bring the total cutback to 10 trillion, not counting savings on interest payments." The governor has some other ideas, though, more specific ones: for one, he would take a sharper scalpel to medical spending. How? By making Communes and Regions responsible for their local health delivery units (USLs) and putting restrictions -- a ceiling -- on spending; any jurisdiction that spends more than that will have to cut funds somewhere else to cover the excess. A sound deterrent. "The desirable effect of holding government spending within the 80-trillion limit is clear when you note that the flow of newly formed financing activity (last column in the table) would drop to 19 percent of GIP, as opposed to the 20 percent estimated for 1983." And what would that do? One basic thing, which business has been awaiting for years: "That would ease pressure on the money markets, thereby opening the way to low real interest rates." And money would begin to be cheaper.

	State credit Requirement	Total Internal Credit	Business & industry credit (2)
	Gross internal product (GIP): % increase	in billions	in % of GIP
		in billions	% increase
		% of GIP	% of GIP
1982 (1)	17.1	72,611	15.5
1983	14.7	83,000	15.4
1984 (a) virtuous	11.0	80,000	13.4
(b) intermedi- ate	15.1	100,000	16.1
(c) trend- based	17½	120,000	18.9
(1) After non-interest-bearing deposits for payments abroad.		151,000	21.7
(2) Internally, after acceptances and securities.			23.8
			20.4
			20.9
			18.0
			19.8
			20.5
			21.3
			21.5

THE BANKER'S VIRTUOUS CIRCLE [Box item, L'ESPRESSO 14 Aug 83 p 107]

The Bank of Italy says that the budget deficit (state requirement) must be cut to 80 trillion lire in 1984. Doing that will set up a "virtuous circle" that will afford more credit to private enterprise (from the 30-trillion-lire difference between total internal credit under the virtuous scenario and the 80-trillion-lire deficit) and by slowing the upsurge in new loan activity (to 19.2 percent of GIP); that would mean lower real interest rates and hence cheaper credit. When it's over, we should have more investments and more jobs.

Now, prices and indexing. In the virtuous circle, Ciampi includes not only action to reduce the budget deficit, but also action against all indexing mechanisms and on wholesale and retail prices. Let's look at his proposals, one by one.

1. The COLA machinery will be reformed. How? Not the way Nino Andreatta and even some socialist economists would do it, by spacing out COLA trigger-points to 6 months instead of the current 3 months, because doing it this way would mean that with each adjustment, all at once and every time, there would be a sudden, massive rise of liquidity in Italian pockets that would bring about an uncontrollable round of price hikes (as happens when the annual month's pay bonuses are paid). What Ciampi suggests is to "preset" the COLA trigger-points, meaning that he would program them to keep pace with the rate of inflation determined by the government -- 10 percent for 1984. Naturally, Ciampi would also readjust the COLA machinery for the civil service.

2. Prices. This is the major innovation in Ciampi's plan. If inflation is to be leashed, we must control and bring down prices, not just the COLA. Wholesale prices, factory prices, will be programmed according to the government's pre-established inflation ceiling (excluding the effects of increases in the dollar exchange or in raw materials costs). And what if the manufacturers go through the 10-percent ceiling for 1984? They must automatically be punished, penalized with a cutback in their fiscalization privilege for fringe benefit costs, which means that portion of taxes (they now run around 8 trillion lire per year) the government has been picking up for several years now and which in fact constitutes a direct subsidy to industry).

From the Bank of Italy's viewpoint, though, public enemy number one is the retail trade. In 1982, retail prices rose by 5 percentage points more than wholesale prices: retail merchants gave inflation a very hefty boost. It will be well to keep an eye on them, Ciampi argues, and put controls on some thirty products.

3. The other indexing machinery. To get inflation really under control, rates must be programmed as well, and here we must let them rise only by a cautious margin: rents, which must be held below the inflation ceiling; pensions; set-asides for old-age retirement. Not one of them must exceed the government's programmed inflation ceiling. Only if everything stays in line, under control, can we win the battle against inflation.

The Ciampi plan is thus a very well-balanced plan, which affects everybody equally, without any obsessive worry about the COLA or any of the many other contributing causes of Italy's inflation. This is why the new government liked it. And this is precisely why it has some chance of being a winning plan. It is for the new prime minister to persuade his cabinet to implement it.

THE NEXT 5 YEARS

	"Control" Scenario		"Alternative" Scenario	
	% Rises 1984 to 1988	% annual rises	% Rises 1984 to 1988	% annual rises
Gross internal product	+14.3	+ 2.4	+ 20.0	+ 3.7
Total investments	+31.0	+ 5.5	+ 45.7	+ 7.8
Industrial production	+22.5	+ 4.1	+ 28.4	+ 5.1
Consumer prices	+69.8	+ 11.2	+ 51.3	+ 8.6
Wages	+82.6	+ 12.8	+ 53.5	+ 8.9
Employment	+ 4.7	+ 0.9	+ 5.7	+ 1.1

...THEN, BY THE END OF 1988....

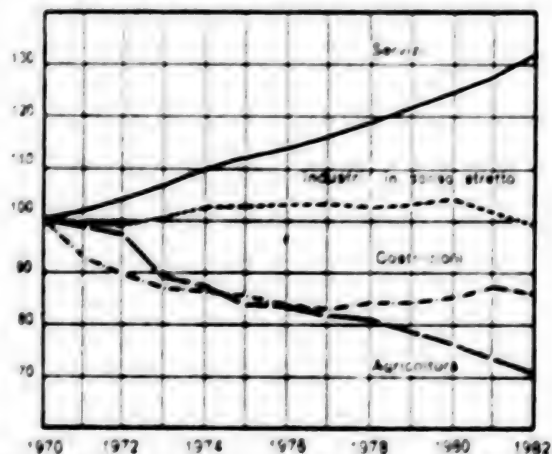
Inflation	10.6	8.4
Sales of goods and services (in billions of current lire)	- 14,831.1	- 5,719.7
Overall budget deficit (in billions of current lire)	- 152,954.1	- 91,638.6

Employment per Sector
Index: base 1970 = 100

Unemployment Rate
In percentage of the labor force

OCCUPATI PER SETTORE DI ATTIVITÀ

Indice base 1970 = 100

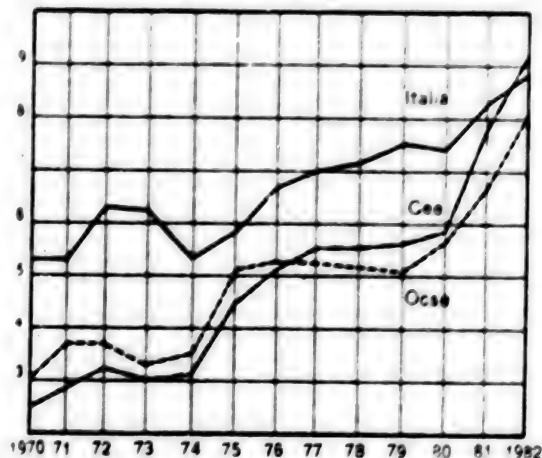


KEY:

Services (solid line)
Industry in the strict sense (broken line)
Construction (-.-.-)
Agriculture (— — —)

TASSO DI DISOCCUPAZIONE

In percentuale delle forze di lavoro



KEY:

Italy (solid line)
EEC (broken line)
OECD (— · — · —)

Unemployment: IRS Report

Rome L'ESPRESSO in Italian 3 Jul 83 p 153

Milan. Unemployment? We wouldn't have even a shadow of it in Italy if only women would stop hunting for jobs and abandoning their husbands, children, and kitchens. Of course, you could apply the same logic to the young folks: it it hadn't been for the "baby boom" back in the Sixties, we wouldn't be hearing now about those 2 million-odd out of work. And why not blame it on men? After all, if there weren't all these adul men looking for jobs... etc.

Joking aside, this is the problem: there have been a whole lot of new jobs created in Italy these past 10 years. Even more numerous, though, were the candidates for those jobs: especially youngsters and women seeking their first jobs. The rise in employment, particularly in the service sector, was not enough to absorb the phenomenal growth of the labor force. This (along with a lot more) is the conclusion reached by the latest "Dossier" in the LETTERA FINANZIARIA devoted to the labor market in Italy (as compared to the rest of the world). Between 1960 and 1973, overall employment declined by more than a million jobs, despite the fact that many of us remember the "boom" years as fabulous times, with abundant jobs there for the asking.

From 1973 to 1982, though, employment in Italy rose by more than 1.5 million people. Beginning in 1974, each succeeding year put 120,000 more people to work than had held jobs in the preceding year. Not everybody, though: for every three workers looking for a job for the first time, only two new jobs were created.

And that is why, unfortunately, we have unemployment: offsetting the flesh-and-blood consequences of the "baby boom" and of women looking for jobs, we had the boom-time growth of the tertiary sector, newly surfacing among the top employers. Even that, though, was not enough to meet all the demands for jobs. What are the other causes of unemployment?

One of the causes cited in the "Dossier," published by the IRS [expansion unknown] in Milan, blames overly high real wages. Yet in Italy the most intensive increase in employment came about from 1973 to 1978, in a period during which real wages grew very fast while profits sagged. After that, then, in the years from 1978 through 1982, real wages stopped rising quite so fast, and so did the creation of new jobs. One would therefore be tempted to rule out the theory that bloated wages were to blame for unemployment, although it is true that the profit shrinkage in the wake of the 1973 oil crisis did slow investments and plant reconversion.

All this, however, has to do with the past, and the bottom line for 1952 reflects a momentary halt, perhaps a breathing-space: for the first time in a decade of uninterrupted growth, total employment in Italy has declined. The unemployment rate is now up to 9.1 percent. What will happen now? Top priority must go to the fight against inflation: no matter what government emerges from the elections, it can make no solid commitment, no promise of jobs without first taking on inflation, and without first narrowing the inflation gap that cuts us off from other industrial countries.

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SCOPE OF COOPERATION WITH LUSOPHONE AFRICAN COUNTRIES

Lisbon DIARIO DE NOTICIAS in Portuguese 5 Sep 83 pp 9-10

[Article by economist Antonio G Inocencio-Pereira, specialist in international relations/

[Text] Portugal's official cooperation with its former colonies has been confined principally to the technical and professional areas. Of the five countries in question, Angola is the one with which cooperation has been less than that indicated by its potentialities, in both absolute and relative terms.

The Institute for Economic Cooperation [ICE], established in 1979, took a recent inventory of its activity in 1982. As the coordinating agent for Portuguese cooperation with the Third World in the economic area, specifically with the five African countries where Portuguese is the official language, the ICE presented a clear and detailed balance sheet of the status of that cooperation; the following is an attempt to summarize and comment on the ICE's presentation.

Forms of Cooperation

Portuguese cooperation--independently of the juridical instruments which govern it--occurs in various forms, from the simplest form of business cooperation to cooperation from state to state both bilaterally and multilaterally, the latter occurring particularly in technical-financial areas.

Of particular importance is the establishment of joint companies, an especially interesting form of cooperation, inasmuch as it gives rise to a spirit of north-south dialogue similar to that which prevails at summit conferences between industrialized countries and developing countries (consider the case of cooperation with Angola in the production of electrical equipment). Also, of particular importance is multilateral cooperation (trilateral or triangular) in which Portugal is a party and which makes it possible, in a realistic and pragmatic manner, to reflect the imperatives of the present international division of labor at the cooperative level, avoiding financial and technological strangulations which the dimension and development of our country would not be capable of overcoming by itself within the scope of bilateral cooperation.

Principal Sectors of Cooperation

Official cooperation between Portugal and the five Portuguese-speaking African countries has been principally in the technical and professional areas. In this respect, Cape Verde, which received one-fifth of the total sum allocated to cooperation in 1982, is receiving Portuguese technical aid in the fields of agriculture, forestry and cattle raising. Of special mention is the technical support given by the National Laboratory of Civil Engineering in the construction of the extensive Praia port, which project, budgeted at about 1.5 million contos, will be financed 50 percent by Portugal.

As for Guinea-Bissau, foremost beneficiary of Portuguese cooperation in 1982, the cooperation was directed especially to the sectors of transportation, communications and meteorology (15 percent of the total cooperative allocation to Guinea-Bissau) and to professional training, both at the level of on-site cooperation (17 Portuguese cooperants at various Guinea-Bissau ministries in the economic area and 8 in connection with Guinea-Bissau's airlines) and through scholarships to Portugal (14 in public administration and 9 in the air force).

With regard to Sao Tome e Principe, in 1982 a total of 51 study scholarships were granted for participation in various Portuguese organizations, ranging from the CTT/TLP /General Administration of Post Offices, Telegraphs and Telephones/Telephone Workers of Lisbon and Porto/ (11 scholarships) to the National Laboratory of Civil Engineering (5), the Geographic and Cadastral Institute (5) or the Lisbon School for Hotel Management and Tourism (5), among others. Technical cooperation with this country focused particularly on civil aeronautics (with the presence in Sao Tome of 4 Portuguese cooperants and the financing of Portugal of 40 percent of the future airport of the Sao Tome capital) as well as on converting industries (the manufacture of aqua vitae and alcohol, cattle feed and beer).

Of the five countries in question, Angola is the one whose cooperation with Portugal is the most below its potentialities in both absolute and relative terms; and this, despite favorable predictions which emanated from the summit meeting held in Bissau in 1978 (the Eanes-Azostinho Neto meeting) or the visit of the President of the Republic to Angola (April 1982). Action was prompt, with the greatest amount of cooperation being directed toward professional training.

Concerning cooperation in the industry and energy sectors, we should mention the participation of PETROGAL /Portuguese Petroleum Corporation/ in the prospecting and exploration of oil in the off-shore area of the Zaire River in association with certain foreign countries (Portuguese participation, 10 percent), support for the operation of the entire hydroelectric sector and the participation of LISNAVE /Lisbon Naval Shipyard/ in the project of revamping and developing the Lobito shipyard. In the area of converting industries, cooperation was in the form of business initiative in which it should be mentioned that Portugal represented 80 percent of the total cooperation with Angola in this sector.

Comparing the overall picture with that of 1982, what is most impressive in the official cooperation with Angola is the things left undone much more than the accomplishments; and this, despite the plausibility of the excuses given, whether they referred to the difficult domestic situation experienced by the country or the vicissitudes of bilateral relations. In fact, in important sectors, such as agriculture, civil construction and public works, housing and urban development, transportation and communications, the principal initiative fell on the shoulders of the Portuguese business sector. As for fishing, it is known that the Angolan authorities were still unwilling to negotiate the agreement which was presented to them in 1979 by Portugal, while simultaneously permitting Soviet, Cuban and Spanish fleets to operate in Angolan waters.

With regard to Mozambique, Portuguese official cooperation is rather diversified, with the emphasis on technical assistance; 83 Portuguese cooperants are participating in this cooperative effort, concentrated essentially, as in the case of Angola, in the electrical sector (52 cooperants) and in public administration (27 cooperants).

How Much Does a Cooperant Cost the ICE?

A "cooperant" is a Portuguese citizen who relocates to an African country where Portuguese is the official language, protected by a three-way cooperative contract (the participants being the two countries involved and the cooperant himself). There are presently 188 Portuguese cooperants in the five countries: 83 in Mozambique, 54 in Angola, 25 in Guinea-Bissau, 22 in Cape Verde and 4 in Sao Tome e Principe.

The average cost per cooperant was about 274 contos for the Portuguese state which, however, does not contribute to the charges incurred in the electrical and banking sectors in Angola and Mozambique. Meanwhile, it should be noted that the countries involved pay the cooperants wages, part of which is transferable.

Nevertheless, many of the requests for cooperative contracts have not been acted upon due to the conditions specified, particularly that of the wage level which is far below what the candidates desire.

In addition to these official cooperants, several thousand Portuguese nationals work in those countries, either without a contract or with direct or bilateral contracts.

Bilateral Trade

Contrary to what is customary in our country's foreign trade relations, the Portuguese trade balance is on the plus side with regard to the five Portuguese-speaking African countries in question; in 1982, the positive balance amounted to 13 million contos.

The highest positive balances in absolute terms were incurred in the cases of Angola and Mozambique; this does not mean, especially in the case of Angola, that we are achieving the full potential of our trade relations with that country. Let us take a closer look at the exchanges we are making with each of the five countries:

Cape Verde: In 1982, we imported from that country only about one-fifth of the total amount we had imported in 1981, while, at the same time, our exports to that country increased by about 85,000 contos. Thus, the balance was in our favor to the extent of 1,832,000 contos. As an explanation of the decline in our imports, we would point out particularly the problems experienced by Cape Verde recently, especially with regard to the capture of fresh fish and banana production, its principal exports to Portugal.

Guinea-Bissau: Similar situation: the level of Portuguese imports from that country were relatively low, while, at the same time, our exports to Guinea-Bissau increased by 2 and 1/2 times during the 1981-1982 period; thus, Guinea-Bissau now ranks third among the five countries as Portugal's customer, a position normally held by Cape Verde.

Also with regard to Guinea-Bissau, as unfortunately in the case of Sao Tome, there is the serious problem of so-called "delays in payment for trade," which, in the case of those two countries, exceeds \$20 million.

Sao Tome e Principe: In 1982, Portuguese trade relations did not improve. The trade balance in our favor was reduced between 1981 and 1982 from 700,000 to 265,000 contos, and this was due especially to a drop in exports. Fundamental reason: Sao Tome's purchasing power was decreased due to the low international quotation for cacao--its principal and almost only export product--and this led the Sao Tomian authorities to cancel sizeable orders previously placed by Portuguese companies.

Angola: Compared with the 1981 results, those of 1982 were also not very spectacular (the 1982 balance was less than 40 percent of that incurred in 1981), and this was due to the fact that the Angolan authorities decided to apply highly restrictive measures to imports (cf. deterioration in income from oil sales and military expenditures), which caused Portuguese exports to be reduced by half while imports from Angola doubled. As in the case of Mozambique, the sectors most affected were textiles and footwear.

Mozambique: In this case, our trade relations were particularly favorable last year. In fact, the positive balance of 1981 was multiplied in 1982 by about 4 and 1/2 times, explained especially by a substantial increase in Portuguese exports (which more than doubled), particularly in the case of fertilizers, iron and its intermediate products and transportation equipment; and this occurred despite a considerable decrease in the export of textiles, as previously mentioned in the case of Angola.

The financing formula for Portuguese exports is multiple in nature, consisting basically of export credits, thanks to financial agreements made between the

respective central banks, and, as in the case of Mozambique, thanks to the opening of lines of credit by Portuguese banking institutions (General Deposit Bank, Poncecas and Burnay, Borges and Irmao). Portugal also established trade agreements with the five African countries which contain the important clause: "most favored nation."

Mutual Interest

Much more could be said; but we shall leave that for another time. We refer especially to detailed analyses on specific subjects. However, in conclusion, we shall not fail to mention future perspectives which are opening up with regard to the Portuguese-speaking African countries: the extensive project of the raising of the Cambambe Dam in Angola; this can be seen in the future as a symbol of cooperation which we want to see strengthened as a matter of mutual interest. The financing of the project, which is expected to exceed \$220 million, will be assured up to \$75 million by a "financial syndicate" led by the National Development Bank and including 11 Portuguese banks and credit institutions. The rest will be financed by Angola through sales of oil to Portugal, with shipments to begin at the end of this year.

May this example yield good results. History and the economic recession impose certain conditions upon us. We must know how to cope with them.

8368

CSO: 3542/217

DRAFT OUTLINES MID-TERM ECONOMIC POLICIES

Madrid ABC in Spanish 1 Sep 83 p 45

[Article by C.M.]

[Text] Official financing in the coming years will be oriented toward new activities which may be able to shape the industry of the future, according to a rough draft of the Intermediate Term Economic Program, to which this newspaper has had access. This does not necessarily mean that assistance measures to sectors in the process of adjustment will be cut off for good.

The draft, dealing with the methods which will be adopted by the government in order to encourage the investigation and development of our industry, suggests that privileged financing, doubtless one of the most effective instruments of promotion, will be oriented in the next 4-year period toward the strengthening of the industry of the future, which the public sector is committed to support. The other sectors, which may not be included in this line, will have to depend, as a general rule, on such financing as the normal conditions of the marketplace may offer. Nevertheless, this does not mean that lines of credit earmarked for sectors which are at present in the process of adjustment, will disappear totally. But assistance will in any case be transitory.

The regional level industrial promotion policy will be subordinated to this same purpose of promoting sectors oriented toward the future. Regional assistance which may be granted will clearly discriminate in favor of enterprises in accordance with objectives which may be established. Some companies will not have the same advantages as others, since the sector to which they may belong will be strongly kept in mind in connection with the allocation of assistance.

Also in the regional field, the administration will put into effect a change in the present structure in order to fit it into the norm of the community. In this respect the figure of the industrial polygon will be eliminated in order to become, according to the prototype CEE [European Economic Community] large areas of expansion.

In this connection the dialog which our country may be holding with the Community, could have great importance. An effort is to be made to have the entire national territory considered as eligible for assistance, as has been the case with Ireland, and, more concretely, within the GAEI it should be superior to the rest.

This program of assistance would be completed by the Administration with a policy programmed in advance with respect to State purchases, and the conduct of public enterprises. It is a question of the public sector's setting up purchase plans which would permit the other sectors to know what the future demand will be, so that they would be able to formulate their plans for investment and production sufficiently in advance. This policy can have special importance in the sectors of the future, which are intended to be advanced, such as the electronic sector.

With respect to public enterprise, its role in the promotional effort should be carried out along three lines: by its investing activity in sectors of the future; by the capacity it possesses to draw up grand projects of investment and development--in harmony with other public organisms and private enterprises--; by the volume of its demand for "inputs," which can contribute to the development of new enterprises, since the medium size of these public enterprises is important.

Finally, the Intermediate Term Economic Program--also known as the 4-Year Plan, will involve the creation of some framework of instrument of simple infrastructure, such as a fund, institute or interministerial committee, which will have fixed, specific responsibilities in the tasks of promotion. Just as concerted action is called for in the field of regional policy, it is the same as regards sectoral policy. Through this organism it will be possible to monitor the coordinated channeling of resources from a variety of sources--budgets of investigation CDTI, public enterprises, official credit, subventions,--and the accomplishment of the objectives established by the respective plans. Based on the degree of such accomplishment, it would be possible to suggest another type of measures.

12383

CSO: 3548/495

CHAMBERS OF COMMERCE HEAD, CCOO LEADER ON 4-YEAR PLAN

Madrid YA in Spanish 1 Sep 83 p 20

/Text/ "The 4-Year Plan is the last opportunity remaining for the Spanish economy before tuning to the International Monetary Fund, which, in exchange for credits, will impose upon us a real austerity program," Jose Maria Figueras, president of the Higher Council of Chambers of Commerce of Spain, told EFE /Spanish Press Agency/.

In comparison with other years, certain macromagnitudes of our economy have not deteriorated so much; the "problem," he added, "is that we are reckoning from an extremely subtle reality, according to which not to advance actually constitutes a big setback."

For Figueras, the general state budgets for 1984, and the intermediate term program are the decisive "tests" of Spanish economic policy. "The government can claim," he said, "in a series of cases, such as Rumasa, the 1983 budgets, crisis of financial institutions, etc., that it inherited a difficult task, and practically everyone has given it the benefit of the doubt. But now they have to face the results of their own acts."

"The key," says Figueras, "lies in the public deficit, but I fear that in this regard the government will now show sufficient resolve, because of political reasons." In his opinion, the most resolute gesture the government has made in this field is the decision not to install the hot rolling mill operation in Sagunto, "but adopting the decision as an isolated step meant the acceptance of unpopularity without using the occasion to explain to the country the absolute necessity for the measure."

Concerning recent movements of the dollar, Jose Maria Figueras said that in the international financial community the general conviction exists that it is overvalued. "Nevertheless, this should not give rise to false illusions; if the Spanish economy is not positioned on a path of secure growth, the peseta will continue to lose ground, and not only against the dollar, but against all of those currencies whose economies are having greater success in the correction of basic imbalances."

Concerning measures of assistance to external commerce, he said that "in this area there are more words than real measures. Spanish exporters have the impression, confirmed over and over again by the facts, that foreign competitors receive much more support from their respective governments."

ADLER VIEWS IMPACT FOR WEST OF ANDROPOV STRATEGY

Paris LIBERATION in French 24, 25, 26 Aug 83

[Article by Alexandre Adler: "The USSR on the Eve of a Hot Autumn"]

[24 Aug 83 p 14]

[Text] Yuriy Andropov has successfully consolidated his position by holding simultaneously the titles of secretary of the party and president of the Soviet Union and by appointing many of his own men to key positions. But on the eve of the deployment of U.S. missiles in Western Europe, he still has to come to an agreement with Chernenko and with Gromyko, the two important figures most strongly opposed to his policy.

As soon as the summer ends, Western Europe will be facing political tension on a very large scale with the deployment of intermediate range American missiles. Many observers concur in thinking that the next few months will be marked by a real turning point in strategy. Of uppermost importance in this crisis are the policy of the USSR and the fate of its top leader, Yuriy Andropov.

With Andropov's establishment as head of state at the end of June--after being appointed to the post of general secretary of the party 6 months earlier--the official process of Brezhnev's succession was completed. However, many concurrent signs contributed to maintain an element of uncertainty as to the stability of the new leadership: the relatively low number of personnel, especially in the Politburo where membership remains abnormally low; the inconsistency in the promised reforms and in the signs of conservatism (the most telling example being a remarkable slackening in the campaign to fight absenteeism and corruption which, in the space of a few months, has been reduced to next to nothing) and, finally, the fact that quite contradictory policies were being followed in the main theaters of operation of Soviet diplomacy (in particular toward China where a renewal of friendship seems to be a major concern of Andropov himself judging by the importance attached to that subject in recent selections from his speeches).

From the institutional viewpoint, these uncertainties have crystallized into a balance of bureaucratic forces and into the promotion or dismissal of personalities whose career resumes follows a definite pattern.

Points in Andropov's Favor

If one makes an initial assessment of the situation in that sphere, one can see as points in Andropov's favor:

The fact that he holds simultaneously the posts of party secretary and of president of the Soviet Union, something he achieved after a 6-month struggle.

The promotion to the post of first deputy chairman of the government of his new ally, Khayder Aliyev of Azerbaijan, who was given the task of reorganizing the economy, a task since restricted to the transport sector.

The appointment of several big technocrats, with whom he has very close ties, to various key technical ministries (trade, construction, industrial ministries).

The promotion of several marshals including Akhromeyev, the father of the SS-20s program, who support his policy line.

The dismissal of the official formerly in charge of the "cadres section" and his replacement by one of his own close assistants, and the creation of a new economic section headed by another of his loyal supporters.

The fact that the KGB and the Ministry of Interior are again in the hands of two of his very close allies, Chebrikov and Fedorchuk, and that the territorial jurisdiction of the KGB armed forces has been extended to the entire national territory. And, finally, the militarization of the police and his control over it with the creation of a corps of political commissars inside the militia.

Within the Soviet bloc there is the strengthening of the general secretary's closest allies: Kadar was able to advance on the road of reforms in Hungary; General Jaruzelski withstood the attacks from the "Stalinist Right" and handled the pope's visit in a way that did him credit; finally, Honecker, who according to SPEIGEL escaped from a political assassination attempt on Christmas of 1982, has managed to maintain on course his policy of rapprochement with West Germany despite the fall of Helmut Schmidt.

Domestic Opposition

In the ideological sphere, the gains registered are modest: the rather remarkable rehabilitation of Kosygin who was quietly set aside during Brezhnev's rule; the reopening of the debate on economic reforms with very highly placed officials taking part in that debate; the rather discreet rehabilitation of Marshal Tukhachevsky, Stalin's main victim among the military; the quite strong offensive against Great Russian nationalism; the fact that expectation of becoming self-sufficient in the agricultural sphere have been abandoned, as dramatically indicated by the grain accord signed at the end of July with the United States.

In the foreign policy sphere, Andropov has managed to warm up considerably his relations with the Chinese leadership who did not hesitate to praise him in public, and crowned with success to make diplomatic overtures to the Nordic countries (proposal for a neutral Baltic Sea) to Yugoslavia, to Papandreou's Greece, and to moderate Arab countries (Egypt, Jordan, Iraq). Ties with Cuba and with Sandinist Nicaragua have become closer. Relations are good with the Vatican and with several large parties which are members of the Socialist International, the SPD in particular. The European Peace Movement has made spectacular gains thanks to a certain Soviet flexibility in variance with the heavy-handed attitude prevailing during Brezhnev's last years. The lack of news about developments in the war in Afghanistan has helped to lessen the external pressure on the USSR which has secured the goodwill of Pakistan and China, while in Afghanistan itself movements reminiscent of the FLN [National Liberation Front] dissidents in Algeria raise the prospect of the resistance becoming increasingly divided, a development which could help to obtain through guile what could not be consolidated by force.

These results are not negligible but the negative column remains impressive, so much so that it raises doubts as to the long-term stability of the new ruling team.

The most significant indication of the existing state of affairs at the top level was observed during the end-of-June meetings to appoint Andropov to the post of head of state; the obviously supreme honor bestowed on the new general secretary was in fact accompanied by the elevation of the two personalities who are most strongly opposed to his policies--Chernenko and Gromyko. The first, who was the second most important figure in the party before Brezhnev's death, has kept and even increased his influence in the party Secretariat. In June, after a period of absence for health reasons which very much looked like a sort of strike, he was put in charge of relations with fraternal parties and was given control over the cultural sector, something which allowed him to launch a campaign against writers and to sponsor, from Kiev, Korneyev's antisemitic pamphlet which gives every indication of being an indirect attack on Andropov. At a loftier intellectual level, Gromyko as chief of diplomacy has personified the most conservative trends in the state apparatus curtailing, in particular, some specific initiatives of Andropov's diplomacy toward China or toward Europe, supporting Vietnam or backing a number of initiatives such as the one by the weekly NEW TIMES which, with its attacks on the Polish Junta, was trying to create problems for the general secretary of the party, or else, engaging in trifling polemics with the peace movement in the West. His promotion to the rank of first deputy chairman of the government, 2 months after Aliyev's promotion, gave every indication of being a setback for Andropov who by pushing his close associate intended to take out an option on the succession of Tikhonov, a man in his seventies, at the head of the governmental machine. With Gromyko's promotion, that move was blocked. The fact remains that the removal of Abrasimov, Gromyko's friend and Belorussian compatriot, from the post of ambassador to East Berlin is a setback for those who in Moscow are very suspicious of the dialogue with Germany. Yet Gromyko's position remains outwardly strong even though four major ambassadors--the ambassadors to Washington, Paris, West Berlin and East Berlin--are close associates of Andropov.

Taking Over the Brezhnev Apparatus

The economic reforms under study are limited, for the time being, to a few marginal sectors of the apparatus. The unions, which saw their leadership brutally changed in February 1982, remain in the hands of the Brezhnev apparatus and are dragging their feet in the matter of the announced reforms although the new law on workers' rights, giving new powers to the collective production bodies, is intended to bypass them. Key posts such as head of the GOSPLAN (Baibakov) and head of the government (Tikhonov) remain in the hands of Brezhnev's men despite the advanced age of the incumbents.

Most of the Politburo membership is still in the hands of Andropov's opponents. This conclusion, which can be reached by studying the biographical data on each member, is strongly supported by the lack of appointments to that body of new officials from the Andropov team who, normally, should have filled the vacancies created by deaths.

In several instances this majority has made its presence felt in the form of ill-timed initiatives. The General Secretariat (members of the Politburo who set in the Secretariat), reduced from five to four members, also seems to be divided. While it is true that Romanov--the new official in charge of industrial policy who clearly opposed Brezhnev during the succession year when he allowed a satirical article against the former general secretary to be published in a Leningrad magazine for which he was responsible--remains without doubt a loyal ally of Andropov, there are still two other secretaries, Chernenko and Gorbachev, who are still in a position to counteract the authority of the top leader.

Finally, several outside teams had openly worked against Andropov during the succession period: Zhivkov's Bulgaria--otherwise strongly compromised in the attempt to kill the pope--; Tsedenbal's Mongolia, which purged some cadres who supported the new Soviet policy of rapprochement with China, accusing them of "Maoism;" Ceausescu's Romania worried over the increasing influence gained in Moscow by its traditional enemy Hungary, Husak's Czechoslovakia, still afraid of being forced to accept a local solution of the Kadar-type using some of the leaders of the Prague Spring such as Dubcek, Cernik or General Prochlik in coalition with some "moderate men" such as Strougal, the head of government. One is forced to note that after several very obvious initiatives by Andropov aimed at undermining the authority of these various local cliques, all these hostile rulers remain in their posts and, in the case of the Czech, he even dared to carry out genuine acts of insubordination which can only be explained in terms of the strong backing received from Moscow (particularly in the matter of relations with the Catholic Church).

Finally, at the head of the army, Marshal Ustinov, an old associate of Brezhnev, seems to have established a policy of equilibrium which does not exclude a very marked difference of tone toward Andropov. Just recently, for instance, after Andropov had repeated to Chancellor Kohl that the present phase of tension would not prevent a continuation of the Soviet-German dialogue, the defense minister issued a very strong warning, apparently intended for the West, and one of the elements of this warning--"the rejection of a policy of appeasement" similar to the policy followed by Stalin with Hitler from 1939 to 1941--

concealed as a muffled criticism of Stalin gave very much the impression of being a criticism of those who, like Andropov, are counting on the peace movement to advance the policy of the USSR.

When all is added up, one can say, using a Chinese type of quantitative terminology, that Andropov wins by approximately 52 percent. However, the lack of a stable institutional process makes this 52 percent far more precarious than, let us say, the same percentage attained by Mitterrand.

[25 Aug 83 p 20]

[Text] On the eve of the deployment of Europmissiles in Europe, that part of the world is becoming the target of Soviet diplomacy. The two Germanys are the main drill ground. Andropov's purpose seems to be to isolate the Americans, among whom Reaganism is said to be a "fundamental trend."

These purely political uncertainties are compounded by the shadows hanging over Andropov's health. Irrespective of whether they are being used as a tactic or whether they are unable to stop the flow of reports, the nature of the physical ailments affecting the secretary general--there is talk of Parkinson disease symptoms and kidney problems linked to diabetes--is not kept secret in contrast with what happened for a certain time in the case of Brezhnev. Yet the paradox lies in the fact that by raising the hope among his adversaries that his term in power will be quite short, the fairly poor health of the secretary general is allowing him some breathing space. It diverts some of the intrigues mounted by his colleagues toward younger potential successors, in this case Romanov and Gorbachev, and strengthens Andropov's determination to put his stamp on events rapidly. Quite obviously, he will make full use of the mandate with limited responsibility, which was given to him during the June Plenum, in every area where he has a margin of maneuverability. On the domestic front, and in the absence of a regular congress, the announcement that there will be general elections within the party indicates that a proper offensive is being mounted against the lower ranks of the Brezhnev apparatus following tactics similar to those used by Deng Xiaoping against Hua Kuofeng in China.

But it is obviously in the area of foreign policy, private domain of the general secretary, that the strategic scope of the new policy of clearly discernible.

Two notable visits in July, by Franz Joseph Strauss and by Georges Marchais, each prove in its own way the firm purpose behind Andropov's strategy. Europe, and secondarily China (where activity is momentarily at a standstill waiting for Weinberger's visit in September), have become the main targets of Soviet diplomacy. During these last few months, "well informed circles" in Moscow and more particularly the Institute of U.S. Studies of the Academy of Sciences, view Reaganism "as a fundamental trend in American policy." The change of policy in favor of rearmament, and the monetary policy of the Federal Reserve Bank are developments which took place during the final year of the Carter

administration. They will survive even a hypothetical defeat of the Republican administration next year. Therefore, and despite attempts to find a minimum level of coexistence with the United States--which have led to the signing of a compromise at the CSCE [Conference on Security and Cooperation in Europe] in Madrid, to the continuation of various negotiations, to the signing of the grain accord and, on the part of the Americans, to the lifting of sanctions against Poland--the underlying goal pursued by Moscow's diplomacy today is to separate Western Europe from the United States, using the increasing economic conflict on interests between the two shores of the Atlantic. That is the key which allows one to understand all the recent moves made by Andropov.

An Agreement With the United States?

In major international negotiations, the USSR has fostered the hopes of the peace movement by repeatedly making "concessions" which went far enough to instigate a debate but not so far as to bring about an agreement with the United States. The signing of the Madrid Agreement obviously raised hopes of a resumption in the negotiations. I personally doubt that Moscow is in any hurry to come to an agreement with the United States. Such an agreement, consistent with the traditional diplomatic line of action followed by Gromyko, would slow down the growth of the German peace movement. By choosing in East Berlin the course of making concessions to the Lutheran Church and to civilian circles as shown by the dismissal of Abrasimov, Moscow has abandoned that traditional line of action which served to reinforce the power of the SED over a divided German state. For the first time in many years, Moscow used the word "Germans" to describe the citizens of both the FRG and GDR. The development of such a policy, stubbornly pursued by Andropov, presupposes that the Americans become isolated. One must add that in the same order of ideas Andropov will use the autumn crisis to strengthen the socialist supra-nationality. The deployment of more missiles in the territory of his allies, the simultaneous holding of summit meetings by the Warsaw Pact and by the CEMA are all means of strengthening the cohesion of the bloc. The same purpose is obviously behind the overture to Germany which is taking place at the same time. Thus the announcement by the Hungarian Government that it was opening its borders in July was preceded by Kadar's trip to Moscow. With that Andropov wanted to indicate that the Hungarian liberalization measures had been previously discussed in the Kremlin.

The implementation of this policy creates some problems for the more dogmatic fraternal parties, the hostility of these parties to any intermediary forces having been widely used in the period when Suslov and his assistant, Ponomarev, had a free hand in matters relating to the international communist movement. Andropov then has initiated a change of direction: in Greece, the Communist Party¹ (KKE) under the leadership of Harilaos Florakis opposes, sometimes mutedly and sometimes openly, the ruling Socialist Party of Andreas Papandrou.

1. Known as KKE-Exterior, it groups four-fifths of the communist voters as opposed to the Eurocommunist group called "of the Interior."

These tactics have even led the KKE into surprising alliances with the Right, in Cyprus as well as during the municipal elections. Therefore when the Greek Government signed an agreement with the United States on the problem of the bases, there seemed to be a good opportunity to launch an angry attack against "the socialist traitors." By explicitly expressing approval for Papandreou's wisdom, the Soviet Government dealt the KKE a stinging slap on the face. Andropov has thus condemned the anti-socialist policy of Florakis and has started a crisis in Greek communism.

And the EEC?

Greece's turn to occupy the rotating presidency of the EEC, coming during the crucial time when Euromissiles are to be deployed in Europe, was in the view of the Kremlin, a more promising development than to engage in a dispute of secondary importance with a government which decidedly leans toward the East in all major international issues. But there is obviously more to it since, early this year, Andropov supported the return of the legendary General Markos to the country.¹ Markos, who was military chief of the communist resistance, went to the USSR when the civil war failed in 1949. According to historian Dimitris Vlandas, Markos was arrested in 1950 and was reported to have died. Until 1956 he was kept under house arrest in the Urals and later in Pemza, in Central Russia, for many years. While he claims that he was accused of "Titoism" by the Stalinist party leadership, he rather seems to have been a victim of the campaign to eliminate Zhdanov's friends and supporters throughout the communist camp. Old Markos, a highly symbolic figure and first-class witness to the tragic history of Greek communism, seems to have the support of some factions in the Soviet apparatus. His return to Athens coincides with Andropov's pressure on Greek communists to force them to accept a European strategy of cooperation with the Socialist International. Back in the early 1970's, the substitution of Kollyanis, an old Stalinist, by Florakis was a sign of Moscow's distrust toward the dogmatism of the Greek party. That issue has been raised again.

[26 Aug 83 p 18]

[Text] Yesterday Alexandre Adler described how the Andropov strategy toward the Europeans--to separate them from the Americans--implies calling to question again various "dogmatisms" in the communist parties of the West. A country, Finland, can be taken as a "model" of this new policy.

The "Andropov style" in foreign policy first became particularly evident in Finland after the Soviet leader assumed control over relations with the fraternal parties on the death of Suslov. Since 1969 the Finnish party has been divided into a reformist majority faction and a neo-Stalinist minority faction. Andropov, formerly in charge of neighboring Karelia, knows Finland well and, apparently, he even speaks Finnish. The changes in the Soviet attitude toward that country are, therefore, very likely to hold great significance.

1. On this subject one should read the article by I. Yannakis containing an interview with the Greek historian Dimitris Vlandas and published in the issue No 2 of the magazine COMMUNIST which offers masses of information and first-rate analyses in every one of its issues.

The election of a social democratic president, Mauno Koivisto, was officially opposed by PRAVDA.

That election finally brought about a most unusual split among Finnish communists, with the reformist majority voting with the socialists while the neo-Stalinist minority voted alongside the conservatives and centrists to support Moscow's candidate (the Agrarian Union candidate). This could have led to a split among communists in Finland similar to that which took place in neighboring Sweden in 1977. But no such thing happened. Koivisto was soon accepted by the Soviet Union as a talking partner (after he went to Hungary on an official visit which signaled the reconciliation) and, suddenly, the neo-Stalinists were forced to accept a reorganization of the party leadership which limited their possibilities of expressing their views. In the interval, it is true, Andropov had taken over Suslov's position in the party Secretariat.

Thus a "Finnish model" for solving a crisis has emerged, and one can reasonably assume, in view of where and when this happened, that Andropov is its originator. This Finnish model consists of seeking an agreement between reformists and dogmatics with the advantage going to the reformists on condition that they will show greater respect for the strategic goals of the USSR. As stated by Vladimir Zagladin, deputy head of the "capitalist foreign countries" section, in an interview with the Italian daily LA REPUBBLICA, in May 1982, the CPSU can accept many innovations in internal matters providing that there is convergence on the problem of peace.

Since Andropov came to power, the trend in France and in Italy has been to seek that type of solution. It is true that even dogmatic officials such as Ponomarev recently expressed a much more radical policy openly criticizing the communists for taking part in the government. But the fact remains that an honorable compromise was found in the Italian Communist Party which allowed the pro-Soviet leader Armando Cossutta to save face and, what is more significant, there has been a realignment among the various leaders of the French Communist Party [PCF] since the beginning of 1983. In the PCF, and particularly at the 24th Congress of 1982, the debate dealt with the value of taking part in the government. The leaders most prominently loyal to the USSR (Plissonnier, Lajoie, Hermier) had reservations, while the leaders who were behind the attempts to achieve a unitary and democratic reform (Fiterman, Paul Laurent) were more clearly optimistic. But the debate has been superseded since the first group now seems to have decidedly joined the side of those who are in favor of taking part in the government. In this respect, the press conference held by Plissonnier last spring continues to be a highly astonishing event. By inviting the press to come to the "Auvergne Embassy" (undoubtedly the only embassy he frequents), the administrative secretary of the PCF was substantiating the idea that he alone represented a very specific trend of the collective leadership, something which is totally contrary to the concept of "democratic centralism." When he came out very explicitly in favor of the PCF participating in the government, he was either stating a truism (because how could such an announcement be news if Plissonnier were really following the party line) or making a paradoxical statement which would indicate that he was not always in favor of it.

During that same period, rumors were circulating claiming that Charles Fiterman was going to be given increased responsibilities in the Secretariat to carry out reforms in the internal organization of the party.

Compromise of the PCF

If this is really true, it follows that we have here the Finnish pattern: acceptance of Fiterman's pragmatism in the French sphere in return for which the PCF becomes more closely aligned with the Soviet theses on questions of international strategy. At the highest leadership level this compromise emerges in the form of joint management of the party by the two most opposed wings in the Secretariat, the association of the dogmatics signifying a guarantee toward Moscow. This arrangement is, of course, mere hypothesis but it could explain three different series of unusual developments.

1) The PCF is now concentrating its attacks against the government on issues of international policy while maintaining a stance of solidarity and unflinching moderation in some social spheres (the Talbot Affair) and in economic matters (the Delors Plan) where it would be easier to start a confrontation. Everything indicates that the PCF no longer wishes to make threats about leaving the government but wants to make use of its position in the power apparatus to raise in a forceful manner the question of the Euromissiles, seeking many supporters within the Socialist Party (and obviously it has found some).

2) It is evident that a convergence of the two wings, which is what the USSR favors, would leave the "center" of the party exposed, a center headed by the unpredictable Georges Marchais who was confident of being able to cement the unity of the leadership group all by himself. He could be sacrificed in one way or another for the sake of this new arrangement. When in the fall of 1982, there were various signs indicating that the strength of the secretary general was flagging (among other a strange editorial article by Etienne Fajon published in L'HUMANITE in September 1982), his counterattack was to publish a health report, to urge party members to show a spirit of rebellion and individual initiative toward the party leading bodies (the Central Committee of October 1982) and, finally, to announce that there was a theoretical document reportedly calling for discussion within the party. No document (there was talk of an essay on the subject of Jaures) has been published to this date. Marchais' attacks on Delors, after the Central Committee had reiterated its support for the Mauroy government, seemed a blunder, and a communist minister, Marcel Rigout, did not hesitate to rectify these attacks in no uncertain terms.

3) At the beginning of July 1983, Fiterman and Marchais had lunch at the Elysee. Even at this point no mention was made of the secretary general making a trip to Moscow. It is hard to understand why that trip, planned for several months but with no specific date set for it, would have been concealed from the president of the republic. On the other hand, the trip of the secretary general of the PCF exactly coincided with the date set for Fiterman's trip to Moscow and with the date on which the Order of the October Revolution was going to be presented to Plissonnier. The decision to cancel (or rather to postpone) Fiterman's visit was made in Paris, and not in Moscow.

As for the Order of the October Revolution awarded to Plissionner, there is no indication that its recipient may have gone to Moscow to receive it.

Everything seems to indicate that Georges Marchais suddenly decided to recapture the political initiative within the collective leadership making a remarkable move with the Soviets, a move which, originally, was not expected so soon. (Marchais is the only secretary general of a communist party from the capitalist world to have visited Andropov twice within a single year). But Andropov's reaction was not encouraging for the leader of the PCF: Moscow did everything possible to indirectly indicate that Marchais was the petitioner in that visit. The publication during that visit of an article by Ponomarev, which is strongly critical of participation in the government, was quite humiliating.

Visiting Andropov Twice in a Year

TASS' refusal to take note of the rectifications made by Marchais on the final communique was yet another snub. Of course one could view all this as an orchestrated move intended to curtail in France the accusations of servility toward the Soviet Union. This is what Marchais did at the beginning of 1980 when he gave his unreserved endorsement to the invasion of Afghanistan while, at the same time, he came out in defense of the Czech dissident Vaclav Havel, although that defense became toned down soon afterwards. But in the present instance it is difficult to see the same thing happening because the specific French amendment, calling for general negotiations involving all European countries, is part and parcel of the Soviet proposals and even of the Soviet strategy since Andropov came to power. The only element which could, in a pinch, be construed as an attempt to keep his distance from Moscow is his observation about an excess of armaments implicitly referring to the USSR, but is it not a fact that Andropov himself has taken some steps in that direction?

But while French public opinion was quick to see through the misleading information, with the press unanimously acknowledging that Marchais' visit amounted to an unconditional acceptance of the Soviet theses, on the other hand, the loss of prestige suffered by the secretary general who was unable to compel TASS to incorporate his two personal amendments to the communique, which had been prepared in advance, will no doubt have adverse consequences in terms of his image among the middle level cadres of the party and among his European counterparts. Andropov is not making Mitterrand's task any easier when he weakens the power of the secretary general of the French party and demands strict observance of the USSR's European strategy while, at the same time, he stops criticizing the participation in the government of France. He has cemented against the unity of the PCF, aided by the retreat of Soviet dogmatism and by the beginning of a compromise in Poland which renders his position less uncomfortable. From now on, the PCF asserts at the same time its goodwill in the domestic sphere and its firm stance in the external sphere as confirmed by Marchais' latest outburst, not very subtle as usual, inviting the head of state to act seriously.

New Soviet Strategy and Germany

This is a far cry from the pressures applied by the pro-Brezhnev group to keep to a minimum the alliance with the French socialists. Andropov pursues a strategic scheme of a different magnitude from which France cannot escape. The task facing the president's majority will obviously be all the more difficult.

But Germany is the country where the most spectacular developments of this new strategy have unfolded in a totally unexpected fashion.

Since the 19th century, German unity has always been achieved without the Catholic Church and, more often than not, against its opposition. It has taken Franz Joseph Strauss, the man who personifies autonomist and reactionary Bavaria, many years to realize that the conglomerate of forces which he represents (regionalist, conservative and agrarian Catholics, refugees from the East) could never become a majority in Germany. The purpose of the deal made in the spring of 1982 between the FDP [Free Democratic Party] of Genscher and Lambsdorff and the moderate wing of the CDU [Christian Democratic Union] --which was sponsored by the financial tycoons Burda and Springer as well as by the State Department--was to prevent the social democrats from continuing to be in charge of the government in the FRG during the most critical phase of deployment of the Euromissiles. But Strauss, and not Schmidt, was the major victim in this plot which brought about the fall of the Center-Left parliamentary majority in the autumn of 1982. The Bavarian leader was sacrificed for the sake of the new alliance on grounds that he was an extremist. His reaction, that very autumn, brought in a new element: Strauss praised the SDP [Social Democratic Party of Germany], a party which "at least has a policy," and directed his angry fire against the FDP, an immoral party which has nothing to offer to German democracy. Kept out of the newly formed government headed by Kohl, Strauss then carried out an extraordinarily daring maneuver. He realized that the key to the office of chancellor is held by the GDR. The communists of East Berlin are the only people who can finally free him of his image as a reactionary Papist and who can open for him the hearts of the north German Protestant voters who are naturally in favor of a reunification with their brothers in Saxony and Brandenburg. Meanwhile, Honecker--who with Andropov's help, is gradually becoming free of the pressures brought upon him by the Stalinist majority in the Political Bureau of his party (the Axen-Naumann group)--is seeking to pursue the dialogue between the two Germanys despite the fall of the SDP in the same way as Sadat tried to continue his undertaking even with the Likud Party after the Israeli Labor Party was defeated. This is what happened when the GDR was given a huge credit guaranteed by the Bavarian Bank and negotiated by Strauss. The leader of the CSU [Christian Socialist Union] took away from his rival Kohl the trophy for diplomatic tact right as the latter was preparing to go to Moscow. His visit to the GDR put the finishing touches on his new image as a conservative politician willing to start a dialogue with the East. Naturally this turnabout by Strauss cost him something: a small rebellious faction of the Bavarian CSU is splitting with the party and this is something which will not help him on a national scale.

By proposing that West Germany be given the right to veto the use of American Euromissiles deployed in the territory of the FRG, Strauss has opened possibility of integration with the moderate wing of the peace movement. A change of this magnitude brings to mind the occasion, 60 years ago, when the prominent conservative politician Gustav Stresemann decided to support the Constitution of the Weimar Republic making it possible to form the big SED coalition of the moderate Right which initiated a policy of detente with France and brought stability to Germany, at least for a certain time. A joint initiative by Strauss and by the former burgomaster of Munich, Vogel, current leader of the SDP could, in a few years' time, start with the USSR a discussion of fundamental importance for the future of Europe. These are the guiding factors behind the Soviet Union's European policy today.

8796

CSO: 3519/613

NORDIC GOVERNMENTS COOL TO SWEDEN'S FRONT-LINE STATES SUPPORT

Oslo APTENPOSTEN in Norwegian 1 Sep 83 p 8

[Article by APTENPOSTEN Correspondent Morten Fyhn: "Swedish Solo Play on Poor Ground Among Scandinavian Foreign Affairs Ministers"]

[Text] Stockholm, 31 August.

The other Scandinavian countries are openly skeptical about a Swedish proposal for a special meeting with the so-called front-line states in southern Africa. On the other hand there is broad agreement about opposing South Africa's receiving more loans from the International Monetary Fund.

According to what APTENPOSTEN has learned, these viewpoints, among others, will be presented at the regular Scandinavian foreign affairs ministers' meeting in Stockholm on Monday and Tuesday. The traditional Scandinavian foreign affairs policy cooperation continues to be very good in spite of the fact that in recent times solo plays have been made which do not always fall on good ground with the others.

The Swedish front-line state proposal is such a play. Under the Palme administration Sweden has represented itself openly both with its proposal for a nuclear-free corridor in Central Europe and in its view on a nuclear-free zone in Scandinavia. Norway and Denmark have said several times that for the time being they will not support the proposals and will repeat this if Sweden's Lennart Bodström presents the proposals again. But during the preparations for the Scandinavian meeting no special activity has been displayed on the part of Sweden with regard to either the corridor or the zone. Not least in Norway, one is of the opinion that several of the Swedish plays are to be regarded as an expression of a need for a clear definition of domestic policy.

The Scandinavian countries have for the longest time received good contact with the front-line states in the UN. The other Scandinavian countries doubt that it will do any good for Sweden to want a separate meeting with these states in Stockholm. They are also afraid that such a meeting can create unrealistic expectations of concrete results.

Especially in Sweden sharp criticism was directed at the fact that the Scandinavian representative of the International Monetary Fund some time ago did not vote against granting a larger loan to South Africa. The result of this criticism now appears to be that Scandinavia in reality will hereafter oppose new loans if the question arises.

The authorization of UNIFIL forces in Lebanon runs out in October. Their future is now uncertain because of the very tense situation in the country. In APTENPOSTEN's understanding, today there is quite open Scandinavian skepticism about continuing to maintain soldiers in Lebanon. But it is not apropos to unilaterally vote to send soldiers home, as the Netherlands has done.

Foreign affairs ministers from Finland, Sweden and Norway are on Thursday traveling directly from Stockholm to Madrid, where the European security conference can be formally concluded. But the other 34 nations will probably come up with a formula which makes it so that the process continues as desired.

Foreign Affairs Minister Sverre Strøm will meet his NATO colleagues in a separate meeting in Madrid. Separate meetings with foreign affairs ministers of other countries can also arise. Finland's Paavo Väyrynen, for example, is planning to talk with both the USA's and Soviet Union's foreign affairs ministers.

A result of the Central European Security Conference is that Sweden will be host to a separate arms reduction conference in Stockholm starting in January. In this connection, big changes have been made among diplomats in the UD [Foreign Affairs Ministry]. SVENSKA DAGBLADET claims that deliberate extensive party politics are in progress in the ministry, and especially in the department which has responsibility for arms reduction matters. Declared Social Democrats have taken over the leading positions so that the UD is dominated by politically loyal people, the newspaper claims.

8985

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PSF PRE-CONGRESS MOTIONS ON A-B-C, CERES, ORTHODOX ROCARDIANS

Paris LIBERATION in French 12 Sep 83 pp 10-11

[Article: "The Three Motions of the Socialist Congress of Bourg-en-Bresse"]

[Text] At the conclusion of the meeting of the Steering Committee of the PS this weekend, three motions remain in contention for the congress to be held at the end of October. Motion No 1: the former A, B, C factions; motion No 2: CERES [Center for (Socialist) Studies, Research and Education]; and motion No 3: the orthodox Rocardians. They diverge on many points relating to economic policy and to the international questions.

Between now and the Bourg-en-Bresse congress on 28, 29 and 30 October, the Socialists are going to have to debate and vote on three motions. We excerpt and present here the main elements of them, grouped under subject headings that will doubtlessly constitute most of the stumbling-blocks in the debate. To facilitate reading, the motions have been assigned numbers.

Motion No 1 is the one resulting from the merger of the former factions A (Mitterrandists), B (Mauroyists) and C (Rocardians). Written by Lionel Jospin, this text of some 60 pages, entitled "To Make the Changeover Succeed," differs very little from the contribution submitted by the first secretary of the PS before the vacation period. The passages published here are from the initial version presented at the meeting of the Resolutions Commission of the Steering Committee this past weekend. in the course of the commission meeting, the "Rocardians" obtained several changes of form, but this changes nothing fundamental.

Motion No 2 is that of the CERES. It recapitulates in some 30 pages the major ideas expressed by Jean-Pierre Chevènement in his interview in the monthly ENJEU (see LIBERATION of 31 August 1983). This motion contains 41 proposals "for success."

Motion No 3, entitled "Regaining the Political Initiative by Good Use of Rigor," is due to the initiative of Marie-Noelle Lieneman, Alain Richard and Jean-Pierre Worms, former members of the C faction.

In the course of the Resolutions Commission meeting, they presented eight amendments to Lionel Jospin's text, all of which were rejected. They therefore decided to stick with their own motion, of some 40 pages, which is very close to the theses of the CFDT.

Changeover and Crisis

Motion No 1: ...No part of the world is escaping the crisis.... The aggravation of the world crisis, which is evidenced quite clearly by, for example, the very rapid growth of unemployment in the FRG, and the weaknesses of the French productive apparatus, have forced us to bend our policy. The route may be modified. But this does not at all mean that our objectives, our points of reference or our values should be altered....

We have not, of course, changed policy, but reality may lead us not to develop our action in a linear and uniform manner during the 7-year term. The aggravation of the crisis in the world, the deflationary policies of our neighbors, are forcing us to build our forces in a different way; this imposes phases of consolidation following phases of considerable progress.... Without a return to external equilibrium between now and the end of 1984, our country would run the risk of seeing an economic policy contrary to the Proposal of the Left imposed on it.

Motion No 2: ...What good would it do to change heads if what is in the heads does not change? One can see today how the ambient culture, compounded of depoliticization and scepticism toward any collective ideal, is an obstacle to change. The Socialist Proposal's diagnosis remains valid. "Neoliberalism" became the dominant ideology in the course of the 1970's. Denouncing any effort at overall comprehension as the first step on the road to totalitarianism, it is a stumbling-block in the way of any awareness of social dynamics, which are necessarily overall ones.

With a fallback into the private sphere, the cult of individuality, praise of narcissism, the "recentering" mentality dear to the advertising people--the values conveyed by this ideology cloud the sense of collective action.... If this neoliberalism--of which Giscardian advanced liberalism was only a variant--can be considered a crisis ideology, it is for a very simple reason: by preaching resignation, diversion of collective commitment and withdrawal into micropowers, it leaves the field open, on the world level, for the big maneuvers of the multinationals and the superpowers. It opens the way to a return of a fascist-leaning far right exploiting to its advantage--and in popular circles too--the racism and insecurity that are linked to unemployment....

Motion No 3: ...The "crisis" that is developing everywhere should oblige us to attach ourselves more resolutely to certain traditional blockages of French

society, in the absence of an aggravation of the injustices. For the Socialists, the crisis must not be suffered passively. The necessary financial rigor and the efforts to revive the economy should not be conceived of as a "bitter pill" to be swallowed, as a parenthesis; it runs the risk of being as long as a "pause" in our policy of social transformation. Rigor can and should be used as a lever for social change....

Good use of the rigor consists in using it as a means for responding to an immense unsatisfied aspiration to live in a different way, an immense source of creativity, of formidable latent energies for liberating the citizen and entering into the world of tomorrow at full tilt: different relationships of labor, a different concept of work time and free time, different mechanisms of social solidarity and of solidarity among the generations, different relationships between men and women, different relationships between services and users, different relationships between producers and consumers....

Employment

Motion No 1: In the long run, there is no response to the problem of employment that is not dependent on a resumption of growth. Thus the international environment, as well as the narrowness of the room available to us for maneuver, permit one to think that in the short term, other measures will have to be taken in favor of employment. We note that the debate about work time should be taken up again while keeping it in mind that in the course of the Ninth Plan, weak growth would be insufficient for bringing down unemployment....

Motion No 2: ...Employment...must remain the priority of priorities because we have been elected to combat unemployment effectively, because we will be judged by the French in 1986 above all on our ability first to contain it, then to roll it back. Let us say it clearly: there is no durable solution to the problem of employment--employment of young people first of all...if economic activity does not progress at a satisfactory rate. To make the choice of economic growth is to make the choice for youth, for creativity in society, for our capacity to mark out the future....

The liberal diagnosis--that France is living beyond its means--leads to compressing the expenditures and the buying power on which they are founded. But deflation enters into the spiral of impoverishment and dependency; the shrinkage of the outlets causes contraction of the national supply, prolongs the stagnation of investment and aggravates underemployment.... It is necessary to produce more and better....

Motion No 3: More than any other social problem, unemployment calls on the Socialists. Thus they must have the courage to tackle it in all clarity, in all frankness, cards aboveboard. One cannot hope to reduce unemployment in a significant way without a new division of labor. Any effort at economic recovery and revival presupposes first of all, in effect, investments in productivity in order to recover the competitiveness of our enterprises. Modernization of our production apparatus therefore will not--at least initially--create jobs.

It is necessary to explain to the French--who, for that matter, already feel it intuitively--that more work hours on the whole will not be made available tomorrow, and that rather than draw upon the gains in work, by means of levies and taxation, with which to pay the unemployed, it is necessary to share both work and the earnings from work better....

Protectionism

Motion No 1: ...Protectionism is a slow and fatal poison if it entails withdrawal into oneself, Malthusianism and factitious comfort. Free exchange is harmful when it enables the richest to impose themselves on the others, when it is used for ensuring the domination of certain countries, when it facilitates the transmission of aberrant fluctuations. Exchanges must therefore be organized. We should also carry on an importation policy that makes it possible to balance the trade relations with our partners again and even to aim for a surplus, to pay the burden of external debts....

We have no reason to suffer the limitations imposed on us by our trading partners without reacting, but we do not have to go beyond that.... It is in confrontation with other countries that our industry will find the stimulants enabling it to regain the competitiveness lost over the last 10 years....

Motion No 2: After explaining that it is necessary to give "muscle" to domestic demand by means of "effective and modulated support of buying power," the CERES adds: Not to temporarily restrain external supply is to expose oneself to the disappointments of the minirecovery of 1981, which, because it was not accompanied by measures to start a reconquest of the domestic market, stimulated foreign supply more than it did the French enterprises.... A more offensive exchange policy would correspond to the long-term interest of our industry. While the effects of a dynamic industrial policy are awaited, an importation policy should be established....

There is nothing to prevent the taking of measures to limit the external deficit temporarily (for example, prior depositing for importation, safeguard clauses authorized by the treaty of Rome) that would be removed in accordance with the improvement in our trade balance, sustained by the revival of our industry....

Motion No 3: The building of an economic "Maginot line" (or an "Atlantic wall") would give best results only on the military level; and growth distinctly stronger than that of the other industrial countries and artificially caused (overvaluation of the franc, withdrawal from the EMS [European Monetary System], temporary protective measures at the borders) would in the long run increase the fragility and dependence of our economy in the face of an international competition that cannot be escaped for long....

Social Protection

Motion No 1: Financing of it must be based on national solidarity and not on the distinction, suggested by the right, between the assistance reserved to the rich and the insurance that is permitted only to the wealthiest. On con-

dition that it is carried on in parallel with a democratization of taxation, subjection of family allowances and of a part of social Security to taxation represents progress toward greater justice....

Motion No 2: A great tripartite national negotiation involving the totality of the income-formation and price mechanisms--and therefore, of course, the social-protection mechanisms--should be organized in order to establish the principles and instruments of a "policy on distribution." It is not up to us to prejudge the results of such a negotiation--unprecedented, but in line with the real stakes. It is clear today that taxation, social transfers, the charges borne by the enterprises, wage income--all those burning topics--can be dealt with only in an integrated manner. It is necessary to stop playing the game in which everyone tries to foist the burden of the deficits off onto someone else.... All the analyses show that more can be asked from the big nonwage incomes and from the standing fortunes. ...

Motion No 3: ...The active and aware solidarity that the mutualist principle wanted to develop is yielding more and more to a system of "rights" and of anonymous rules managed by vast social bureaucracies. The automatic character of the granting of benefits, often criticized because it encourages certain abuses, also contributes to freeing the beneficiaries of responsibility. Hasn't the time come to seek the means for a new individual responsibility in collective solidarity and for greater personalization of the benefits? (Here the "orthodox" Rocardians suggest three routes: division of labor, the struggle against medicalization of society and against the major social scourges--alcoholism, excessive speed on the roads, etc--a redefinition of the hospital function, etc).

East-West Relations and Atlanticism

Motion No 1: ...Being faithful to the Atlantic Alliance does not mean practicing Atlanticism. The specific nature of the Western alliance is that it is an alliance of free peoples. Let us retain all our freedom of judgment and action in transatlantic relations, while at the same time having a sense of our responsibilities.... We have come out of the era of illusions as regards detente. But it is not a matter of rejecting every idea of detente. It is a matter of carrying on an active policy vis-a-vis East Europe without complications or complacency....

Motion No 2: An enhanced role for France in the world depends also on a better positioning on the East-West axis, because we believe that the problems of development are the principal challenge to which humanity must respond, and we cannot accept seeing them reduced to the confrontation of the United States and the Soviet Union. If this poses to us a problem of security in Europe and represents a model of society that we have always rejected, it does not follow that we have to deal with all the problems through the distorting prism of anti-Sovietism. The proximity of the USSR should not make us fall into complete dependence on the United States, which is tending to transform the Atlantic Alliance, whose field of application and whose obligations are nevertheless strictly delimited by the treaties, into a hegemony pure and simple....

France, the Third World and Africa

Motion No 1: The Socialist Party has full solidarity with the liberation struggles of the Third World and with the powerful impetus toward national emancipation that underlies them. But we do not idealize the Third World, and we do not at all prohibit evaluation of our solidarity in the light of our principles: social justice, democracy, liberties. Democracy is not a luxury for wealthy countries. It is indispensable for all peoples....

The considerable increase in the financial aid that we are contributing for the survival of the states (in Africa) is working to the detriment of investments and a real development policy.... France could not allow Chad to disappear. Out of respect for its agreements with the Chadian state, France has taken action, but its reaction has been characterized by firmness and wisdom. The PS is hostile to the war, but also to the partition of Chad....

Motion No 2 With regard to the Third World, it is important for France to develop further its relations with the countries of Latin America and Asia. Thus it would be advisable to use our aid better in order to make it more effective politically and economically. In Africa, which contains many of the least-advanced countries, France, far from keeping up illusions and reflexes of another day, will favor the trends that arise in a progressive direction, without presuming to substitute itself for them....

Motion No 3: We must again start thinking about and discussing the problem of hunger in the world. In the long run, it is in fact just as explosive a problem--even more so--than the political tensions currently to be seen in various regions of the world.

We must also incorporate nuclear proliferation--a permanent risk to the peace and equilibrium of the world--into our geopolitical analysis. It constitutes a heavy threat that can make the conflicts multiplying today (Central Africa, Middle East, Asia, Central America and Latin America) even more critical, destabilizing and inhuman.

The Party's Role

Motion No 1: ...Some have viewed the Socialist Party as a "vertical apparatus," far-removed from the aspirations of society and functioning in a vacuum. We state clearly that this is not the opinion of the signatories of this text (see the final subsection of this article). Our party is a party of synthesis and not a party of ideological monopoly or exclusivity.... In this spirit, any anti-Marxist offensive (for example, on the question of human rights, which authentic Marxists defend as much as others do) must be rejected. No ideological faction may impose itself on the others.... The Socialist Party, which does not date its birth from 10 May, does not view its horizon as limited to the 7-year term. Its mission is to work out a correct ebb and flow between day-to-day matters and the medium term....

Motion No 2 The party does not constitute the government, and it is not up to the party to dictate its conduct.... The party therefore has less the task

of monitoring the government than of going ahead of it to light the way.... If the party is in charge of a ministry, it is not the 16th ministry of the Mauroy III government, nor that of a government of grumbling, still less that of a government of beatitude, but resolutely that of a government of offensive....

A more effective and ambitious party would fulfill better its role as a driving force in the majority. The necessary expansion of the majority should not be brought about by putting things in jeopardy but rather by consolidation of the things gained. The union of the left is the historic nucleus of the popular rally. In particular, introduction of the proportional principle into the manner of legislative voting will have to be done without breaking the electoral solidarity of the parties of the majority....

Motion No 3: It is correct to call for the building of a mass party, which clearly implies taking the appropriate means in the daily practice of our sections, not repelling those who sympathize with the left, who expect to find a party open to debate and action, and not a sect turned inward on its esoteric quarrels. This objective is incompatible with the strengthening of hierarchical and professionalized apparatuses, to the detriment of affirmation of the initiatives of the militants....

The Eight Undesirable Amendments of the Orthodox Rocardians

Before the Resolutions Commission of the Steering Committee of the PS, in Salle Colbert in the National Assembly on Saturday evening, Alain Richard, Marie-Noelle Lienemann and Jean-Pierre Worms presented eight amendments of Motion No 1. They were all rejected, and the Rocardians of strict obedience then voted with the members of faction 1 (A and B). They therefore decided to stick with their own motion. Here are the eight amendments in question:

- 1) Analysis of the crisis-- "This is a moment in history when all the social relationships that the party must study objectively, freeing itself from routine thinking such as an ineffective Keynesianism or a Marxism so simplified that it becomes a mere summary of Marxism, are being profoundly modified...."
- 2) On good use of rigor--"The necessary financial rigor and the efforts for the recovery of the economy must not be conceived of as a 'bitter pill,' a 'parenthesis' (it runs the risk of being a long one), as a 'pause' in our policy of social transformation. Rigor can and must be used as a lever for change...."
- 3) Protectionism--It "is an economic impasse" and "brings with it a new surge of inflation and a far more lasting drop in buying power...."
- 4) Sharing of work--"A significant reduction of unemployment cannot be hoped for without a new sharing of work...."
- 5) Social protection--"It is necessary to attack the mechanisms of 'automatic expenditure,' which are incoherent with the principle of management of this

sector by those elected by the wage-earners. Such management cannot be limited to a mere bookkeeping task, and should truly guide the expenditures...."

6) National education--"A fight based exclusively on the granting of additional means must be rejected."

7) A changeover negotiated and run from the rank and file.

8) An open and democratic party--"While a party molded by a long history of opposition has a tendency to make itself into a fortress under siege, a party of government must have the boldness to open itself up to society."

The "Vertical Apparatuses" Are Holding Up Well

Of the amendments to Motion No 1 presented by the Rocardians Gerard Fuchs, Michel de la Fourniere and Robert Chapuis, a good 30 were accepted by the negotiators of the former A and B factions. For the most part, they involve matters of form and specific details on importation policy, employment, reduction of work time and the European problems. None changes the structure of the text. It is true that in the view of Michel de la Fourniere, he and his friends saw only "convergences, and no divergence," in Motion No 1.

Nevertheless, they are said to have appreciated the fact that the passage concerning the "vertical apparatuses" was shortened. True, the attack aimed at Michel Rocard is explicit. Robert Chapuis explained in particular that the minister of agriculture's remarks to L'EXPANSION were not to be seen as an attack against the PS. And that if there were a "crisis" of the vertical apparatuses, it involved rather the Church or certain trade unions. He therefore proposed a new formulation, rejected without its even being judged necessary to vote on it. In reporting a little later on the proceedings of the Resolutions Commission meeting, Jean-Paul Bachy (former faction A) did not fail at that time to explain to the Socialist militants that he and his friends considered this subject "a fundamental problem."

11267

CSO: 3519/626

PSF PRE-CONGRESS POWER-BALANCING OF JOSPIN, CERES, RICHARD

Paris LIBERATION in French 12 Sep 83 p 9

[Article by Gilles Bresson: "PS: Lionel Jospin Occupies the Center"]

[Text] There will be three motions before the Bourg-en-Bresse congress of the PS after this past weekend's Steering Committee meeting at which Lionel Jospin, the first secretary, imposed his analyses and his concepts on a vast central gathering bringing together the former A, B and C factions.

If you like strong sensations, don't bother. There was neither suspense nor surprise, still less any brawling, at this past weekend's meeting of the Socialist Party's overall Steering Committee. In short--as Lionel Jospin desired--no "drift" at all. The bearing is marked out, known. And onward to the Bourg-en-Bresse congress, where the militants will have to decide among three motions: that of faction 1, which groups the former A and B factions, plus the Rocardians (faction C); as for the CERES [Center for (Socialist) Research, Studies and Education] and the neo-Rocardians who have rallied around Alain Richard, Marie-Nelle Lienemann and Jean-Pierre Worms, they will each present their own motions. It is up to the congress now to see whether a synthesis of them, such as was not made on Saturday evening, is possible. Meanwhile, there will be debate. The tone of it is set: it will be calm. At least everyone worked at calmness over the weekend.

Onto this first outcome was grafted a second, at the conclusion of the meeting of the Resolutions Committee, in which the CERES did not take part in the discussion or in the voting, and for a good reason, its text having been rejected as a basis for reflection. An agreement was reached among the leaders of the A-B-C faction on the relationships of forces in the PS. Here again, no surprises. The ones that came out of the Valence congress were adopted again. The Rocardians, who saw themselves shaved down by 5 percent at that time, would have liked a bonus this year, as a pledge of their governmental support. Such is not the case. Furthermore, they agreed to have the score of the ex-Rocardian minorities deducted from their future representation within the party's leadership organs if those minorities get more than 5 percent on their motion. With a rejection on their part, the entirety of the national agreement would be placed in jeopardy, Lionel Jospin warned.

But one should not stop with the formal aspect of this Steering Committee meeting. In effect, it marks a date: that of Lionel Jospin's getting a grip on the PS. Valence was not his congress. Bourg-en-Bresse is. No doubt about it. Saturday morning, first of all, he established his position as the first secretary of the PS. In listening to him, the Socialist leaders did not need any textual analysis to be aware of this. And in presenting himself as the one who is keeping the PS on course, in line with his faction's motion, in pointing out that it is on the basis of that motion and no other that a synthesis can be achieved, that it is by means of it and it alone that the PS will not drift, Lionel Jospin imposed himself. On the party, but also on his own faction. He made it clearly understood that if it "anchored" itself in faction A, "in him and not in the others," it would have its own freedom of maneuver. "I seek my truth in myself and not in the others," he warned. In short, being first secretary yesterday because he was named by Francis Mitterrand, he can be first secretary tomorrow because he can impose his own concept. Something else to be noted: he did not fail, on Saturday, to stress the first person, making it clear that it was he who, against wind and tide, stuck to the position that the congress be held at the date established by the by-laws and not at the earlier date proposed by Jean Poperen, and that it was he who proposed the synthesis with faction B: "I found that the other text was very close to ours."

Normal. In contrast to Francois Mitterrand, he cannot impose himself by means of a charismatic power. His only power rests on a broadening of his base. It must be as broad as possible. In an initial phase, he made a point of avoiding any schism within his own faction, which is what his contribution--the framework of the faction-1 motion presented to the Steering Committee on Saturday--is aimed at. He judges that text to be "balanced and coherent. In our judgment, it can rally the party. It is the basis for any synthesis; and in any case, we wrote it with that in mind." Which is granted also by both the Rocardians and the neo-Rocardians. Furthermore, Alain Richard acknowledged that a future synthesis is possible because of "many essential points of agreement"--in particular, "any development relative to international economic policy." This point of view is shared also by the CERES. There is also--and this is "essential" in the view of the Val d'Oise deputy--"the affirmation of support for the government and the fact that, if a different policy can be envisioned, we are, among other things, in agreement about discarding that other policy." This naturally irritates the friends of Jean-Pierre Chevènement, who, however, hasten to cite other points of agreement.

In order to define them, Lionel Jospin means to clarify the criticisms that pit him against the neo-Rocardians or the CERES. His tone, though it may be ironic, nevertheless refuses to burn the bridges--even if it is sometimes capable of brandishing a threat. The motion presented by Marie-Noëlle Lienemann and Alain Richard "is characterized by a super-support for governmental action that would have to seduce us" if it were not "somewhat marginal, almost caricatural." It "does not see itself" in that theory of crisis "that it is necessary to use as one's hair-shirt and discipline* whose virtues are exalted

* Alain Richard replies: "And since Jospin alludes to Moliere, quoting Tarteuffe, who asked that one 'tighten one's hair-shirt with one's discipline,' I could reply to him, in the same spirit, that the question in relation to the disease that our economic system is suffering is whether we will have a response typical of Moliere's physician."

without measuring their heavy effect on people." If "the other left exists, we may have the vision of the other left here. But since we are here in the No 1 position, there is a problem."

With the CERES? "There are many possible points of agreement," but also a "certain number of illusions, a certain recourse to magical thinking. Merciless devaluation as the alpha and omega of our economic policy is a little short-sighted and not very convenient"--as is the "temptation to a different policy." All signs of "drift," according to him. But with an appeal to the CERES, noting that the Mitterrandists have been "sensitive to the quality of your arguments."

Overtures? Lionel Jospin proposes some. But on his conditions. "If one listens to Georges Sarre or Jean-Pierre Chevenement," he explained, "the synthesis will be done at the congress. If that is so certain, why not now? And if not now, is it so certain?" And he adds, in conclusion: "There will not be any drift on the occasion of this congress. If faction C were never in the synthesis and faction E was, there would be no drift, for I believe very deeply that as important as the position of the ones and of the others may be, there will be no drift if faction A--excuse me, faction I--does not drift." In any case, it would be difficult to be less centrist.

11267

CSO: 3519/626

VOTERS GIVE HIGH APPROVAL TO GOVERNMENT'S HANDLING PROBLEMS

Oslo AFTENPOSTEN in Norwegian 3 Sep 83 p 3

[Article by Morten Malm: "Weekly Poll: Conservative Party Best in Almost Everything"]

[Text] People are giving the Conservative Party the best score in a number of central areas--the war against inflation, foreign policy, defense policy and the economic policy in general. The largest government party is best suited to looking after such matters, those asked in a poll believe, but they have larger confidence in the Labor Party, among other things, as far as employment is concerned.

The weekly poll on parties and problems of the society was published in June, when about 1400 men and women over 15 years old were sought out by the Norwegian Gallup Institute's/Norwegian Market Data's interviewers to answer the following question: "Which political party do you think is best suited for taking care of the following matters or questions?" They were asked about a total of 11 topics, i.e., strikes, foreign policy, schools, inflation, defense, unemployment, the economic policy, environmental protection, care for the elderly, immigration matters, and aid to developing countries. The "do not know group" varied from 26 to 36 percent for the different questions.

The Labor Party got the highest scores on questions concerning strikes (34 percent), schools (25 percent), unemployment (41 percent), environmental protection (22 percent), care for the elderly (25 percent), immigration matters (21 percent) and aid to developing countries (22 percent). For these questions the Conservative Party's scores were 19 percent for strikes, 21 percent for school questions, 19 percent concerning unemployment and 13 percent for both environmental protection and care for the elderly, while 16 percent thought that the Conservative Party was best suited to take care of aid to developing countries.

On the other hand, they believed that the Conservative Party takes best care of foreign policy, defense, the inflation question and the economic policy, where the Conservative Party's percentages equal, respectively, 33, 32, 35 and 33 percent. As far as the Labor Party is concerned, 25 percent believe that the party is best suited to handle foreign policy and the economic

policy. Twenty-three percent adhere to the Labor Party in defense questions and 20 percent as far as the inflation question is concerned. It is worth noting that the Conservative Party in these four questions has greater confidence among voters than voters on average have in the party as such in political polls.

What otherwise distinguishes this poll is that it confirms a comparable study Norwegian Market Data made in January, but there only the two big parties were included. In the June poll the Conservative Party is in second place in all matters in which the Labor Party has the greatest trust--and vice-versa. There is only one exception from this rule, i.e., care for the elderly. Here 17 percent think that the Christian People's Party is best suited.

The Christian People's Party wins greater confidence in two other matters, too, than in sheer party polls. They are school questions (13 percent) and aid to developing countries (14 percent). Eleven percent think that the Center Party can best take care of environmental protection matters, and here the Liberal Party "scores" a whole 13 percent. In addition, 7 percent of those asked believe that the Progressive Party is best suited to take care of immigration questions--the party's highest following in this Gallup poll.

8985

CSO: 3639/164

POLITICAL

PORTUGAL

MADEIRA OFFICIAL SAYS INVESTMENT BY EASTERN BLOC WELCOME

Lisbon DIARIO DE LISBOA in Portuguese 30 Aug 83 p 7

[Articles: "Jardim Accepts Rubles When Dollars Are Lacking"]

[Excerpts] Because, he says, "in Madeira there is no politics where business is concerned," Alberto Joao Jardim, president of the Madeira executive council, views with equanimity the hypothesis that the region could be opened up to "investment by the Warsaw Pact nations--on condition," he added, "that regional laws are complied with and there is no interference in the internal affairs of the region."

The Atlantic Alliance "has delayed the solution of the problems relating to the island of Madeira." This accusation was made yesterday by the president of the Regional Government of Madeira in an interview granted to the DIARIO DE NOTICIAS of Funchal. The accusation is well founded. "NATO," he said, "allowed Madeira--a poor region--to spend its own money, and now that the harbor is nearing completion NATO comes forward and asks us if we'd mind if there were a slight delay--for which Their Excellencies, the rich countries, would compensate us."

In view of this situation, and given the fact that "in Madeira there is no politics where business is concerned," Alberto Joao Jardim, president of "a poor region," is prepared to diversify the sources of investment in the "Pearl of the Atlantic."

"I've already told a PCP [Portuguese Communist Party] delegation," he said, "that even investments from the Warsaw Pact nations would be welcome in Madeira, on condition that the regional laws are complied with and there is no interference in the internal affairs of the region."

10442

230: 3542/214

RELATIONS WITH FRENCH-SPEAKING AFRICA WILL BE INTENSIFIED

Lisbon EXPRESSO in Portuguese 27 Aug 83 p 20

[Excerpts] Within the framework of Portuguese foreign policy, the policy of cooperation with Africa will be extended to include the French-speaking countries of that continent--and in particular with the countries of the Maghreb region--in conjunction with what is already being done with respect to those countries whose official language is Portuguese. With a view to implementing this policy, a meeting will be held Monday at the Ministry of Foreign Affairs--under the chairmanship of Minister Jaime Gama and with the participation of Gaspar da Silva, secretary of state for cooperation--to develop the parameters of the Portuguese diplomatic offensive in this connection.

At the Ministry there is even talk "of a qualitative leap forward." Jaime Gama's visit to Mauritania already had these objectives in view, and Mauritania was intentionally chosen because of its nonalignment in the context of the area into which it has been grouped.

This visit by the Portuguese minister of foreign affairs was characterized "by a community of points of view" with his Mauritanian colleague in important areas such as the fishing sector and policy vis-a-vis the Polisario Front, EXPRESSO has learned from an official source.

The position of the Portuguese Government with respect to the Polisario Front coincides, as we have said, with that of the authorities at Nouakchott; it advocates a cease-fire to be followed by a referendum with prior acceptance of the principle of self-determination, but does not recognize--for the time being--the self-proclaimed Polisario regime.

Jaime Gama will meanwhile pay an official visit to Morocco in October and is planning to travel subsequently (in November) to Senegal, Guinea-Conakry and Cape Verde.

10992

CSO: 3542/214

FRIENDSHIP, COOPERATION TREATY WITH MOZAMBIQUE PLANNED

Lisbon DIARIO DE NOTICIAS in Portuguese 7 Sep 83 p 3

[Text] A new spirit of cooperation with Mozambique was supported by Minister of State Almeida Santos yesterday in Maputo, at the conclusion of a 5-day visit to that African country. The minister commented that a tripartite financial cooperation program would be one way to overcome current obstacles to Portuguese-Mozambican cooperation. Almeida Santos (who left yesterday evening en route back to Lisbon) received special governmental honors in Maputo and confirmed that a Treaty of Cooperation and Friendship will be signed soon, when Samora Machel visits Lisbon.

Almeida Santos also disclosed in Mozambique that he had a 5-hour talk with President Samora Machel, saying that their conversation "couldn't have gone better." The Portuguese minister added that during his stay he had discussed bilateral cooperation matters with the minister of the presidency for economic affairs, the minister of justice, the minister of agriculture, the minister of information, and also with various secretaries of state (for culture, coal and light industry).

"A new spirit of cooperation was established between the two countries," Almeida Santos declared, "that can be transformed into a treaty of cooperation and friendship when President Samora Machel visits Portugal." He added that it was agreed with the Mozambican authorities to develop "all possibilities for cooperation, on a basis of reciprocity and mutual interests."

One proposal put forward by Almeida Santos was to encourage the initiative of the Portuguese entrepreneurs with a view to energizing certain Mozambican enterprises that are currently in a state of paralysis. The minister observed that in an initial phase it would be possible to combine Portuguese technology with the available Mozambican resources.

In a second phase new infrastructures would be created, within the agreed-upon criteria for cooperation.

"An important opening exists for Portugal to become a privileged partner in the area of cooperation with Mozambique," Almeida Santos commented in this connection; for him, it is now "a question of developing a joint strategy in this area, after certain financial difficulties have been surmounted.... Portugal

can assist Mozambique and Mozambique can assist Portugal. For this purpose," he said, "we have invaluable capital: a common language, a mutual knowledge of our peoples, and an instinctive current of affection that flows in both directions."

Almeida Santos left Maputo late yesterday afternoon for Lisbon. At the Mozambican airport he was bade farewell by Minister of the Presidency Jacinto Veloso and by the director of the Center of African Studies of Mondlane University, Aquino de Braganca. It was meanwhile learned that Aquino de Braganca will leave this very day for the Portuguese capital, with the aim of developing contacts in preparation for President Samora Machel's visit to Portugal.

Moreover, the new Portuguese ambassador to Mozambique, Paulouro das Neves, is scheduled to arrive in Maputo next Monday.

1002

CC: 35-2/214

'MERCENARY' AIMS OF LAJES AGREEMENT ATTACKED

Lisbon O DIABO in Portuguese 30 Aug 83 p 4

/Text/ The August vacation period did not fail to focus attention on conversations between Portugal and the United States on the future "Azores Air Station," that is, the utilization by the United States of the Lajes Air Force Base on Terceira Island. But the August vacation period is coming to an end and the conversations interrupted during the last week of July are to be resumed in September.

The conjecture is circulating that a final agreement will be reached coincidental with the visit of the president of the Portuguese Republic to the United States; this is not just another conjecture among the many pertaining to the Lajes question but, rather, one which is quite plausible. Meanwhile, "usually well-informed sources" are misinforming public opinion to the best of their ability. The fault is not entirely theirs; rather, it is a mixture of the secrecy and ambiguity which is increasingly characterizing government behavior in the face of problems essential to the country. Any question of "goat's hair" is discussed down to the last detail; any matter of personal or party interest is defended or attacked with tooth and nail; but the moment we enter into the domain of things which are truly important, we begin to walk on tiptoe and vent all sorts of conjectures.

For example, in this case a disclosure is made by the Ponta Delgada morning paper, ACOREANO ORIENTAL, to the effect that the Lisbon government is contemplating diverting a part of the financial compensation to be paid by the United States for the military use of the Azorean facilities to a fund designed to help former Portuguese overseas provinces. The regime established on 25 April has for a long time been accustoming us to the absurd; but even the absurd must have limits. To consider that the United States would pay a certain sum to maintain the Azores as a part of the military defense of the West and that part of that sum would be diverted to sustain the Marxist regimes of Luanda and Maputo has gone beyond the realm of the absurd.

However, all this is supplementary to a basic question which consists quite simply in the criterion used by the government and dominant political class in evaluating what the Azores Air Station represents within the realm of national interests. Insofar as we can tell from what has been said or written on this subject, the procedure of a "U.S. base in the Azores" is to be considered in the

light of purely economic interest, and the only question to be asked is "how much?" How much will the United States pay, and how much, each in turn, will the government of the republic and the provincial government of the Azores receive? Such conduct might well merit the classification of extreme miserableness.

There have always been the poor who have been ashamed of their poverty and others who have turned their poverty into a sort of professional calling card. We now belong to the category of the shameless poor. Do not be astonished, then, that problems such as the Lajes base--or any other of similar nature--are being transferred from the sphere to which they really belong, that of diplomatic strategy, to that of the desperate procurement of a few more millions of dollars to help us to pay our debts.

It is logical for the young Portuguese democracy to understand the problem in this manner. It does not have a diplomatic strategy, nor a definite course to follow in its international relations, nor even a notion of what diplomacy is, nor what the value is of a few positions still occupied by Portuguese sovereignty in the northern hemisphere; the young Portuguese democracy knows only that it has debts, many debts, and an immense dread of being taken over--of being liquidated; it lives with an obsession of indebtedness and in a state of complete forgetfulness of the requirements of national dignity and independence. It is logical, we repeat, but extremely dangerous.

8568

CSG: 3542/217

POLITICAL

PORTUGAL

BRIEFS

NO INTELLIGENCE SERVICE REPORT--The newspapers are saying that this week or next week the government will take up the Intelligence Service report that it was to have ready by 28 August. The fact is that the Council of Ministers on 28 July set a time limit of 30 days for a ministerial team headed by Mota Pinto to submit a preliminary report on the new Intelligence Service. The 30 days have passed, and there is still no report--much less an Intelligence Service. What is Professor Pinto going to do to avoid drafting the report that he had promised to submit? Is it the summer vacation, or is it the fear of creating an Intelligence Service in Portugal? Since it is Pinto we are talking about, can it be that he has also developed a case of the "goose bumps"? [Text] [Lisbon O DIABO in Portuguese 30 Aug 83 p 20] 10992

GONCALVES: YES TO NATO--General Vasco Goncalves was the principal speaker at the meeting held in Marinha Grande on the occasion of "Trade Union Disarmament Day." Speaking of the great military blocs, he supported Portugal's continued membership in NATO, in order that "a movement may be created within NATO that will bring about an equilibrium and lead to disarmament." [Text] [Lisbon DIARIO DE NOTICIAS in Portuguese 5 Sep 83 p 3] 10992

CSO: 3942/214

THREAT OF SPAIN'S 'LEBANONIZATION' INTO SEPARATE ENTITIES

Madrid EL ALCAZAR in Spanish 11 Sep 83 pp 13-15

[Article by Ismael Medina]

[Excerpts] The secessionist parties in the Basque Country and Catalonia have achieved under the 1978 constitution what was denied them in the 1931 constitution. Even though it is slanted, Constantino Alvarez's book ("The Integrated State of Autonomies under the Constitution of the Second Republic," Dosbe Publishing, 1982), sheds a great deal of light on why the 1978 constitution represents a tremendous leap into the void. The problem is not the much-talked-about Section VIII, which the Constitutional Tribunal invoked to practically invalidate the Organic Law of Harmonization for the Autonomies; the problem lies in the basic definitions of nation, State and sovereignty.

The principle of integrity, which imposes the logical restraints of national sovereignty on regional statutes, is not present in the 1978 constitution because the Sovietizing concept of nationalities has been introduced. In order for a nationality to exist, the prior existence of a nation must be acknowledged. It is this essential point, which EL ALCAZAR opportunely drew attention to, that is at the root of the current insoluble conflict. Much as it might grieve us, the 1978 constitution is on the side of those who are screaming that the Basque Country and Catalonia are nations. Therefore, there is only one objectively legitimate way to end the current autonomy-related disarray, which will inexorably destroy Spain's unity and sovereignty: substantially amend or repeal the 1978 constitution.

Given how the 1978 constitution views the State of autonomies (as no more or no less than a confederation of independent States), it is not hard to see that the secessionists have achieved their ultimate aims, which were rejected by the Constituent Cortes of 1931 (Leizaola bemoaned this fact in the speech that Constantino Alvarez includes in his book). No longer do we even have the democratic safeguard that the old constitution stipulated for the establishment of regional home rule in the event that "one province or several bordering provinces" resolved to seek it. The safeguard is the approval of "at least two-thirds of the region's registered voters." This requirement, which is common to the constitutional philosophy of Great Britain and other

democracies that make provisions for home rule, has not been met in any of the autonomy referendums held in recent years in Spain. In fact, in none of them have even half of the registered voters taken part, and no more than a third have voted for home rule. In a nutshell, the State of autonomies lacks historic roots, support among the people and objective democratic legitimacy.

What are we to do in the face of such a flagrantly illegitimate situation? This is the major issue facing us Spaniards at this decisive juncture in our history, when the choice is between saving or killing Spain. Everything else, including the shady business of the so-called "war of the flags," is merely a logical and circumstantial outcome of the essential problem: the strange and destructive constitution of 1978, which embodies the dangerous and longstanding dream of revenge that the Zionist Sulzberger spoke of: the vengeance pending since 1492. This is not, of course, an attempt to reestablish the kingdoms that existed before the Catholic Monarchs forged national unity; it is, however, a bid to reestablish the old factional divisions by creating as many independent States as possible, some liberal and others secretly Marxist. This would be the strongest guarantee of an ongoing and debilitating domestic conflict that would inevitably cause the parties to it to remain dependent on the foreign financial and political powers that provide protection and stir up strife, as is the case in Latin America or the Middle East.

Despotism Enshrined

Karl Marx sang the praises of the Cadiz Constitution because it recognized the so-called "right of resistance," which the French Revolution had incorporated and highlighted as "one of the boldest innovations of the Jacobine Constitution of 1793." Marx was logically astonished to discover, however, that the right of resistance was contained "in the old fueros [right or privilege] of Sobrarbe, where it was given the name of 'Privilege of the Union.' It is also to be found in the old political constitution of Castile." The constitution of 1978 has not even respected this tradition.

The framers of the 1978 constitution have maliciously manipulated these safeguards against and restraints on royal absolutism, as well as many other substantive aspects of a true democracy. The parliament has monopolized the power to appoint the members of all the institutions whose function is to curb absolutist abuses or designs. Thus, the bodies that are supposed to check and balance have become mere appendages of the parliamentary majority and docile tools of the government, be it the government of the confederation in disguise or the governments of the independent States that make up the confederation. Democracy thus becomes parliamentary despotism when there is a coalition government and the tyranny of a single party when, as now, that party holds an absolute majority.

Even though the PSOE (Spanish Socialist Workers Party) formally represents just slightly more than one-third of the electorate and in reality just one-fourth, the entire government and all of its institutions are totally subject to the party's will, and parliamentary politics has been reduced to a sorry democratic fiction. No counterbalancing institution is in a position to check the party's tyranny, inasmuch as the party arbitrarily decides who can join it, thus usurping the people's sovereignty. Examples are unnecessary. One need only read the daily press, even though most papers discharge their disinformation function with the same submissive sectarian discipline as the other so-called organs of democracy.

The same sort of subversion has taken hold in city government, the centerpiece of a genuine Spanish-style democracy. Representation of segments of society has been constitutionally supplanted by the fraudulent introduction of the parties. Not even in the municipalities does service to the common good prevail, with the representatives of the full range of genuine social interests debating and eventually deciding what that common good consists of. Party convenience and discipline smother local representation. Municipal politics, the irreplaceable foundation of Spain's age-old democratic tradition, is becoming corrupt and moribund in the hands of the lackeys of the party bureaucracy. Instead of our political system being enriched by a strong and pluralist democratic movement from municipal government on up, we are the victims of a dictatorial imposition that does not even emanate from constructive parliamentary politics but instead from governments that follow the guidelines of a few parties that are in turn dependent on the orders of an international. In a word, the 1978 constitution has finally choked off all of the sources of authentic national democracy that Karl Marx denounced as popular prejudices, and it has replaced them with despotic expedients that are alien to our culture and our history, expedients of the sort that Marx would have liked to see enshrined in the 1812 constitution.

Conspiracy Against the Nation

The Cadiz Constitution was marred, according to Marx, by "unmistakable symptoms of a compromise between the liberal ideas of the 18th century and shady theocratic traditions." The constitution of 1978 has shattered this compromise once and for all, thus concluding a persistent campaign against the nation that can be clearly seen throughout our tortured and bloody constitutional history.

In support of his denunciation of the compromise with popular prejudices, Marx argued, "We need only cite Article 12, according to which apostolic Roman Catholicism, the only true religion, is and will perpetually be the religion of the Spanish nation."

Even though radicals and Masons dominated the 1931 Constituent Cortes, the framers of that constitution did not dare go as far as the drafters

of the 1978 constitution did in permeating the text with irreverence. The practical results of this (the undermining of society's morals, the disintegration of the family and the introduction of imperiously Marxist teachings) are now being deplored, when it is too late, by a church hierarchy that fell with astounding clumsiness into the trap of accepting democracy as a higher value than God and the Declaration of Human Rights as a more important social principle than the Gospel.

Just as Karl Marx advocated, I would stress, the prejudices of the people, that is to say, the moral foundations of Spain's national constitution, have been brazenly and definitively destroyed by the 1978 constitution. This has been accomplished, moreover, through an insolent distortion of the people's will, as expressed in support for the Political Reform Law. One of the leaders of the current constitutional order has just confirmed this, and his belated confession also introduced an extremely serious and calculatedly divisive element, because he claimed that the Crown was behind this deformation of our nation.

Flags Are Symbols of National Sovereignty

As the problem stands in the wake of the Constitutional Tribunal's judgment, the State of autonomies lacks the resources and the powers to put an end to the extremist designs of the independent States that make up the confederation that in fact exists, even though it is not expressly acknowledged as such. This is precisely what lies hidden behind the so-called war of the flags, which is actually a brazen declaration of national sovereignty by the States of the Basque Country and Catalonia vis-a-vis the nonexistent sovereignty of the vanishing State of autonomies.

It makes no sense to conceal the facts with cynical rhetoric. Terrorism, the unofficial armed wing of the secessionist parties, backs up with brute force the verbal contention of the PNV [Basque Nationalist Party], Basque Left, Herri Batasuna, the Communist Party of the Basque Country and even the Basque Socialist Workers Party, although the latter does so in muted fashion. What they are arguing is that the "ikurrina" [Basque national flag] is the flag of the independent Basque State, which retains full sovereignty over its territory, and that its sovereignty is being impaired by the presence of the "occupation forces of the Spanish State," whose flag is therefore an unwanted symbol of illegitimate operation of the Basque nation.

We can say the same about Catalonia, even though its secessionism is less savage and more in keeping with the shopkeeper mentality. It resorts to less violent and, hence, more effective expedients in dealing with a system that prefers false moderation. Thanks to its more underhanded ploys, Catalan separatism has so far managed to centralize the institutions that are ultimately responsible for defending the nation's fundamental values, all of which it has violated as insolently and repeatedly as have the Basque separatists.

Inasmuch as the State of autonomies is unable even to pretend to palliate its gain time, its only remaining resource is the perpetuation of party tyranny. There is one major difference, however, between the Soviet model and Spain: the bid to replace the State with the dominant party. The party is not dominant in all the nationalities, contrary to plans. Therefore, some constitutionally independent governments of autonomous States are not dependent on the PSOE's despotic clique, which has been heavily infiltrated by the PCP (Spanish Communist Party) and by the Freemasons.

Although they are minority governments from a strictly democratic standpoint, the secessionist governments are still bourgeois in the most stridentest regions. Their international dependency is different from the PSOE's, although the Zionist hand ultimately controls all the internationalists.

Towards the Lebanization of the Autonomy Process

The PSOE would like a disciplined confederation of socialist States, at least while there is the danger of a national reaction. This is why the Madrid Government is trying to gain time with regard to the autonomy question and to create false hopes of unity in response to the separatist provocations that its own actions encourage in the Basque Country and Catalonia. It seeks to create a public opinion mood in those regions that will give it an absolute majority in the upcoming home rule elections. This aim clashes, however, with the intentions of the international masters of "democratic change."

Both capitalist internationalism and the Soviet Union are interested in perpetuating and intensifying Spain's division so that they can neutralize in practice the decisive geostrategic platform that Spain represents -- with international capitalism and Marxism encourage the visceral vendetta that Hiltzberger spoke of and that is taking the form of an active and covert rabbinical penetration into vital regions of Spain, especially Catalonia. Running parallel to this vendetta, which Zionism cannot renounce, is the strategy in preparation for the global conflict that will follow the current stage of terrorism and local confrontations (the present phase of the Third World War). The State of autonomies or the confederation of independent States, in Pierre Salvan's amended definition, differs only circumstantially from what is happening in Lebanon. In Spain's case we could quite rightly speak of a "constitutional Lebanization."

If we now have what Karl Marx deplored the absence of in the Cadiz Constitution, and in the subsequent political process, we should logically apply some of his thoughts to a situation in which "the masses expected that a new range of government would make their social sufferings disappear." It did not happen that way. "When they discovered that the constitution did not suppress their social powers," Marx lamented, "the exaggerated hopes with which it was greeted turned into disillusion, and among those impassioned southern peoples it is but one step from disillusion to rage."

The Disillusion That Provokes Rage

There is a fundamental difference between that situation and the current one. In 1947, there was frightful poverty throughout Spain because the war had aggravated the preexisting economic depression. The "change" that the people longed for and that the framers of the constitution promised them was substantial socioeconomic improvement. In 1976, however, the Spanish people were still enjoying the fruits of economic development; thanks to which they had achieved a level of well-being that was unprecedented in our homeland. A broad new middle class had emerged, per capita income was very close to the sought-after European levels, and what was even more valuable for social purposes, labor's share in national income was at pathsetting levels in the Western world.

The desire for change was encouraged by the democratizing conspiracy, which gave vague promises of broader political participation. The people's wishes could be summarized in a slogan that was seen all over at the time: a change for the better.

If the 1978 constitution dashed the Spanish people's fervent hopes of economic betterment, the bottom line on the 1978 version is even more distressing: an awful and worsening economic depression; a horrifying social regression; a distressing return to the unfair distribution of wealth that the national State had largely eliminated; the new middle class becoming proletarian at a dizzying pace; an unhealthy deterioration of vital social services; insidious personal and collective insecurity; perverse and continued attacks on society's moral foundations; the State's ongoing alienation of the most evil vices; abject persecution of deeply rooted spiritual values; the spread of all sorts of corruption, favoritism, embezzlement, interest group privileges and high-handed expropriations. And to make matters worse, the shattering of national unity, a debased rule of anarchy and the tyranny of a party instead of participatory democracy. All of this justifies the people's mounting disillusionment, because they are realizing that instead of a change for the better, the country has changed for the worse.

In spite of the tyrannical party's efforts to conceal its fiasco, the people's disillusionment is obvious to anyone with a modicum of sensitivity and political instinct who travels through Spain. The disillusionment became obvious, moreover, at the municipal elections on 8 May, just 6 months after the PSOE somewhat confusingly won an absolute majority.

According to the data that the PCP was given by its representatives in the election districts, 35 percent of the voters stayed away from the polls. This would explain why the computers fell silent that night: the government had to give the world the impression that the Spanish people were enthusiastic about their democracy, which was far from the case. In just 6 months the PSOE had lost five million votes, and the opposition more than two million. If we subtract blank

and void ballots and the votes won by right- and leftwing protest groups, barely one-fourth of registered voters bothered to cast votes. Furthermore, many of these votes are the result of mere electoral inertia, not conviction. These hard figures make it clear that the much-touted absolute majority has become a minority.

In view of the worsening economic recession and the other negative factors, including the virulent and brazen anti-Spanish attitude of the secessionists, independent political observers are asking themselves the same question that Karl Marx did: how long will it take for disillusionment to turn into rage, or, if you wish, what emotion-charged accident will unleash the silent rage that is obviously mounting all around us.

Karl Marx also noted that the disillusionment become rage sought and found its guiding force in the military officers who emerged from the War of Independence: "The remoteness of the government, the relaxation of discipline, the continual disasters and the constant training, breakup and rebuilding of cadres over a 6-year period must have given the Spanish Army its praetorian nature and made it capable of being either the instrument or the scourge of its commanders. As far as the generals themselves were concerned, they had these choices: to be members of the Central Board, to quarrel with it or to conspire against it."

The situation is different today, because the military officers who emerged from the victory in the War of National Liberation were not the result of an irregular army having been turned into a regular one, which would have been the case if the Red Army had triumphed. Furthermore, once peace was established, the national State restricted the Armed Forces to their specific functions and skillfully avoided any risk of praetorianism. The Armed Forces were convinced that in the 18 July uprising, which was backed by a large segment of the populace, who under the Republic had gone from hope to disillusion and from disillusion to rage, they were merely fulfilling their duty to Spain, a duty that was even provided for in the 1931 constitution, to which the initial appeals had made express reference. Once they had achieved victory, they returned to their customary peacetime missions, which were altered only in part by the Second World War and the subsequent invasion of the Red underground from France, in keeping with the spirit of Yalta.

The Armed Forces accepted harsh collective and personal sacrifices for the benefit of the common good and the people's socioeconomic development. Hence, in a twisted and futile attempt at proselytizing, the false democratizers occasionally bring up the shortage of funds and the low pay in the military under Franco. Their parochialism leads them to the ridiculous assumption that they are thus wooing the commanding officers of the Armed Forces, when they are actually acknowledging their natural pride that they sacrificed more than perhaps

any other segment of society in a show of dedication entirely consistent with the effort to save the nation that led them into war and to victory. Nonetheless, this same argument, combined with high-handed 19th-century measures (under the guise of reform) like the ones outlined by Marx, as well as the foolish stubbornness in denying the Armed Forces the glory of a national victory over an international conspiracy, merely serve to fuse the people's disillusion with the military's and to unite the people and the Armed Forces in their legitimate rage.

This political deceit, not the resolve of those who are its victims, reminds us once again, and perhaps even more starkly than before, of the acute problem of Spain's survival. This problem has plagued our country ever since the advent of Gallic influence under Philip V in 1700, thanks to the War of Succession, the first of the internationally inspired civil wars in which so much of our blood was shed, followed by an endless string of rebellions, military uprisings, coups d'etat and revolutions.

After a heroic, 35-year collective effort at regeneration, we thought that the War of National Liberation had destroyed once and for all this tragic curse and that we were safe from the servile internationalist impudence of the politicians who officiate at democratic fraud. But instead of the promised progress, the change for the better, we are engulfed in a satanic combination of the worst radical habits of the 19th century and the most debased revolutionary vices of the 20th.

A Life and Death Choice

We are now faced with the familiar, grave choice between killing or saving Spain, between an enslaving revolution of foreign influences and an authenticating national revolution, between a haphazard confederation of independent States and a Spanish-style democracy built on legitimate local autonomies and enriched with the formidable technological resources that the modern age holds out to us.

Just as Jose Antonio Primo de Rivera proposed to Indalecio Prieto in 1936, socialism had the opportunity to head up a bold and resolute national revolution. But whether because of a lack of devotion to Spain, because of excessive international servility, because of the incurable mediocrity of its personnel or because of the virus of a fierce revanchism, the PSOE has wasted its opportunity and missed the train of history, as has the Right, which shares the responsibility for the fiasco with socialism. The system's only chance is to prolong Spain's death throes as much as possible and to delay its total surrender to the vindictive voracity of the Zionism that Sulzberger discussed at length. And that is what it is desperately trying to do, with the aid of the supposed liberal-conservative opposition, by applying poultices, magic ointments and other useless palliatives that only drug the people temporarily with vain hopes and anesthetize their rage. But one of these days, perhaps incited by some seemingly unimportant emotional incident, the people will explode in the same sort of violent rage as before.

What I would like to communicate to those most responsible for the disaster is that the historical imperative is inexorable. I am talking here both about those who are to blame because of their dishonest actions and about those who are equally to blame because of their obvious sins of omission, passivity or neglect of the duties that the homeland requires of and the constitution assigns to them, even if these duties were just a necessary tactical concession by their agents at the time the constitution was drafted. We are all familiar with the saying that one timely death can prevent a major slaughter. Likewise, a hard-nosed, opportune political decision could prevent a catastrophe, no matter how controversial it is and regardless of how much it scandalizes the international yapping forums. This is the crucial choice that we are faced with: either we have a decisive political change that rebuilds the nation on an authentically democratic foundation in keeping with our cultural values, or else we can soon expect a bloody Lebanonization that will last for years.

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ANALYSIS OF NATIONAL DEFENSE LAW SHOWS SHORTCOMINGS

Lisbon TEMPO in Portuguese 25 Aug 83 p 15

[Commentary by Gouveia de Albuquerque]

[Text] A few months after the National Defense Law took effect, its defects were made obvious when it faced its first difficult test: the dismissal of General Garcia dos Santos, army chief of staff. Perhaps out of fear of defying the current president of the republic or of offending susceptibilities, the legislators who wrote that law did not establish any deadlines that would force the president of the republic to accept such dismissals--willingly or not--within a reasonable time.

The delegates to the 1975 Constituent Assembly committed a similar error in not requiring that the president of the republic promulgate or veto the government's legislative bills within a specified period. Because of that defect in the constitution, the president of the republic was accused several times of using what is commonly called the pocket veto--that is, of unduly delaying the promulgation of many decrees.

The right to use the pocket veto was taken away in the recent constitutional revision after arduous work by the AD [Democratic Alliance] deputies during the work of revision.

Unfortunately, the example provided by past experience did not convince those same deputies last December, when they came up with the current National Defense Law. Like the original text of the constitution, the National Defense Law does not compel the president of the republic to make his decisions within a predetermined period of time.

Military Supreme Command a Symbolic Post

The fact is that under the constitution, the president of the republic is also supreme commander of the Armed Forces. But that title should be understood as being merely symbolic, and the chief of state should not interfere in military matters. Incidentally, the constitution has very little to say about that aspect of the matter. It merely states that it is up to the president of the republic to "exercise the duties of supreme commander of the Armed Forces." It is actually the National Defense Law which stipulates the supreme commander's

duties: he has the "right to occupy first place in the hierarchy of the FFAA [Armed Forces]"; the "right to confer military decorations on his own initiative"; the "right to be informed by the government concerning the situation in the FFAA and their personnel"; and a few other things.

The result is that according to that legislation and as regards the exercise of his duties as supreme commander of the Armed Forces, we do not detect any reason that would justify or legitimize the well-known attitude adopted by General Ramalho Eanes, who is studying, thoroughly and at length, the proposal to dismiss General Garcia dos Santos. That very delay in taking a stand can be viewed as interference in military affairs. And as we have already seen, the National Defense Law does not give the president of the republic that right or the authority to assume it.

Chiefs of Staff Responsible Only to Prime Minister, Minister of Defense

The National Defense Law clearly stipulates that the chiefs of staff are responsible to the prime minister and the minister of defense. Just as the prime minister can dismiss a minister who has lost his confidence--without worrying about hypothetical situations of destabilization that might result from his decision, but being concerned only with national interests--so can the head of the government freely dismiss the chief of staff of any branch of the Armed Forces. The only thing is that both decisions require approval by the president of the republic, although he cannot interfere in them. Given the similarity of these situations, therefore, the president of the republic has only one choice left if he does not approve of such dismissals: he must purely and simply dismiss the government. In such a situation, that is the only possible solution.

To reinforce the idea that the chiefs of staff of the three military branches are subordinate and responsible to the government, it is well to recall that on this subject, the National Defense Law uncompromisingly stipulates: "The Armed Forces are part of the direct administration of the state through the Ministry of National Defense. The following are responsible to the minister of national defense: the Armed Forces chief of staff and the chiefs of staff of the navy, army, and air force" (article 35). "The prime minister is politically responsible for directing the national defense policy. It is incumbent on him, specifically... to propose to the Council of Ministers, in association with the minister of national defense, the appointment and dismissal of the Armed Forces chief of staff, the Armed Forces deputy chief of staff when necessary, and the chiefs of staff of the military branches" (article 43).

Process of Replacement

As long as this situation of indecision on the part of General Eanes continues, the entire lengthy and dilatory process of replacing General Garcia dos Santos will remain paralyzed. It is primarily the army organization which is harmed by this uncertainty.

As a matter of fact, there are always decisions that are postponed pending new directives from one's successor. It is true that in this respect, the National Defense law shows one more defect, since it did not foresee the possibility of

an "interim" or "acting" chief of staff. Just as a resigning government must restrict itself merely to administrative acts and refrain from taking basic initiatives, so the law in question should have required that that principle prevail during the transitional process of replacing the man occupying this high military office.

The first step toward replacing General Garcia dos Santos was taken when the government submitted this proposal to the president of the republic. The law in question provides that as soon as the chief of state promulgates his dismissal, the Higher Army Council is to prepare "a list of three persons who satisfy the legal conditions for appointment and whom the council considers suited to perform the duties involved in the post to be filled."

That list is then submitted to the Joint Chiefs of Staff, who either approve it or ask the Higher Army Council to nominate three other persons. If it approves the list, the list with the three names is sent to the minister of defense through the CEMGFA [Armed Forces chief of staff]. From that list of three names, the prime minister and minister of defense select one that is submitted for approval by the Council of Ministers. If it takes exception to the candidates nominated, the government can ask the military hierarchy to submit a new list.

The name selected by the government is then submitted to the president of the republic for his approval. But "if the president of the republic takes exception to the name submitted, the prime minister and minister of defense may suggest one of the other two names on the list or request, through the CEMGFA, the nomination of another person or the presentation of a new list, after which the same procedures are followed" (article 56).

As can be seen, such a procedure constitutes a bureaucratic imbroglio for which those who approved a law crammed with imperfections are to blame. It would be quicker and easier if the post were filled through universal suffrage.

In other words, this replacement process may go on forever if that is the desire of any of the parties involved.

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REASONS AGAINST GARCIA DOS SANTOS' DISMISSAL CITED

Lisbon O JORNAL in Portuguese 2 Sep 83 p 2

[Text] The president of the republic is not going to dismiss General Garcia dos Santos as army chief of staff [CEME], according to indications regarded as reliable by those closely acquainted with General Ramalho Eanes. But the chief of state is still not announcing his decision, not even to his closest associates.

According to very well-placed observers, the fact that Ramalho Eanes has still not responded to the government's proposal--and he is not expected to until he returns from his trip to the United States--cannot be interpreted in any other way. Moreover, and for all the reasons already made public, the same observers emphasized to O JORNAL that "it is unthinkable that the president of the republic could ever accept such a dismissal."

The issue may be reevaluated in different terms, however, as part of the changes that will be made among all the chiefs of staff due to the retirement of General Melo Egidio, the CEMGFA [Armed Forces chief of staff], next February.

Incidentally, that fact has now been realized by the government. According to sources close to it, the government is no longer interested in waging war over the issue, which has earned it harsh criticism from practically every sector except the rightwing and which, because of the way it was handled, was poorly received even by military men who are regarded as conservative but who place the institution and its values above "politics."

According to some circles, that reaction by the army and the support that Garcia dos Santos seems to enjoy in the army must also be giving the government something to think about.

Eanes' Audiences With CEME and CEMGFA

Meanwhile, General Ramalho Eanes received General Garcia dos Santos last Tuesday as provided by article 39 d) of the National Defense Law, which says that the president of the republic, as supreme commander of the Armed Forces, has the "right to consult the CEMGFA and the chiefs of staff of the military branches." It is quite possible that in this instance, that consultation may have had reference to the army's actual reactions to him.

This was the first time that the chief of state had taken advantage of that legal provision. It was also the first time that he had been officially alone with General Garcia dos Santos (they had appeared together in public when they visited the Army Exhibit at the Lisbon International Fair). Naturally, he has probably been with him on other occasions as well, since as is known, the CEME is his personal friend and was once a very close collaborator, specifically as head of the Military Household of the Presidency.

Yesterday--Thursday--the president of the republic also received General Melo Gallo. According to what O JORNAL has learned, this is not the first time that this has happened. But the purpose was not to question him formally concerning the proposed dismissal (which is a legal requirement) under the terms of the National Defense Law. But that was certainly one of the topics discussed during the audience.

The alleged possibility that Eanes will not dismiss Garcia dos Santos but that the latter will subsequently resign is a "merely academic" hypothesis. And it is not considered even minimally viable, all the more now that the president of the republic has granted the CEME an official audience, since it might give the impression that the audience was designed to arrange that very solution. This would injure the prestige of both.

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BRIEFS

RESERVISTS RECALLED FOR MANEUVERS--Portuguese citizens in the reserve (class of 1980) are being called up for military maneuvers, something that has not happened since the end of the African war. According to a note from the Army General Staff [EME], the constitution and the National Defense Law provide that it is the duty of that branch "to train citizens in the military reserve and keep them fit for combat missions." The EME adds that as a consequence, and in accordance with a decision by the deputy prime minister and minister of national defense, "personnel from the class of 1980 will be mobilized to form a rifle company for each military region and military zone" to participate in the "Orion 83" maneuvers this October. The EME says that it is time "to resume what was once the practice in our country for the purpose of testing the effectiveness of the mobilization system." It adds that those being called up have already received their preliminary callup notices and that they will receive confirmation of their brief return to the ranks. The note from the EME explains: "Since this is the first time in several years that the mobilization system has been tested, the personnel being called up will not take part in the maneuvers. They will return to their homes the same day or as soon as possible." [Text] [Lisbon DIARIO DE NOTICIAS in Portuguese 2 Sep 83 p 3] 11798

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SOVIET COAST GUARD SHIP ALMOST COLLIDES WITH BOAT IN WATERS

Oslo AFTENPOSTEN in Norwegian 1 Sep 83 p 4

[Article: "Shrimp Trawler 'Nybør' in Soviet Waters"]

[Text] The 60-foot-long Norwegian shrimp trawler "Nybør" was to all appearances in undisputed Soviet waters when it was boarded by a Soviet coast guard vessel last Monday morning after two severe collisions which damaged the trawler's bulwark.

Foreign Affairs Ministry Press Spokesman Geir Grung told NTB [Norwegian Wire Service] Wednesday that on the basis of the information presented at the protest hearing the "Nybør" was to all appearances neither in the so-called Gray Zone nor in the Norwegian economic zone.

"The Foreign Affairs Ministry must now go through an 8-page police report before any final conclusions are drawn regarding the episode in the Barents Sea," Grung says.

The Gray Zone is a 65,400-square-meter water area which stretches west of the sector line and east of the center line--the two border line claims which have created a 155,000-square-kilometer disputed area in the Barents Sea.

The Gray Zone agreement holds only for fishing, while the disputed area also covers resources on the shelf.

The Gray Zone agreement contains the condition that each of the sides will inspect its own vessels and vessels from countries which they have made quota agreements with for fishing in the zone.

If the Soviet coast guard vessel had boarded the "Nybør" in the Gray Zone, the Russians would have violated this agreement. Boarding in undisputed Norwegian waters would have been a violation of Norwegian sovereignty.

What caused the greatest debate during the protest hearing at Vadsø on Wednesday was the trawler's position. Skipper Stig Oskar Nilsen claimed that he started fishing far west of the Gray Zone boundary and that he began by towing the trawler eastward toward the boundary.

Then he changed course northward in order to avoid coming too close to the boundary of the zone. It was while towing in a northerly direction that the Soviet coast guard vessel turned up. According to the Decca navigator the "Nybør" was at this time a nautical mile west of the zone's boundary.

The current drove the "Nybør" toward the boundary after he had to come to a standstill out of fear of colliding, because the coast guard vessel backed up right in front of the trawler. When the coast guard vessel went eastward, the "Nybør" went full speed in the westerly direction in order to move away from the area of the boundary. It was shortly after this that the coast guard boat came back and, in the skipper's opinion, collided with the trawler.

During the protest hearing it was learned that there had been no communication between the two vessels before the Russians boarded the "Nybør." When the crew from the coast guard vessel boarded the ship it was claimed that the "Nybør" had fished inside of the Gray Zone boundary, but this was denied by the skipper of the "Nybør." Complete confidence had been placed in the modern navigation equipment. It was also confirmed that there was no Norwegian coast guard vessel in the area.

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